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ABSTRACT

This publication is designed to provide school district administrators and boards of education with information they can use in developing, administering, and evaluating their district's risk management needs. In particular, it is meant to help school officials 1) identify local insurance needs consistent with California's statutory requirements, 2) determine local policy regarding insurance coverage, and 3) administer the program. Individual chapters focus in turn on the district's risk management program, statutory provisions relating to insurance, insurable values, fire insurance, liability insurance, student accident insurance, vehicular insurance, fidelity bonds, other types of property insurance, package policies, workers' compensation insurance, group employee benefits, and self-insurance. Although it is intended primarily for use by school officials in California, the booklet will be of some value to those in other states as well. The appendix presents suggested inventory procedures, a sample classroom inventory form, a sample form for listing school district insurance policies, and a sample tax-sheltered annuities agreement with hold-harmless clause. (JG)

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ADMINISTRATION of the SCHOOL DISTRICT RISK MANAGEMENT PROGRAM

SCHOOL BUSINESS ADMINISTRATION
PUBLICATION NO. 1

CALIFORNIA STATE DEPARTMENT OF EDUCATION
Wilson Riles, Superintendent of Public Instruction
Sacramento, 1977

ADMINISTRATION OF THE SCHOOL DISTRICT RISK MANAGEMENT PROGRAM

1977 EDITION

Prepared under the direction of the
Bureau of Management Services

With the cooperation of the
California Association of School Business Officials

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Foreword

I understand that one sentence, with minor variations in the wording, survived all three prior editions of this school business administration publication. Yet, the school insurance scene has changed so dramatically in the last few years that the authors of this 1977 edition could no longer say, as the writers did in 1956 and again in 1963 and 1969, that "Perhaps in no other phase of their business affairs are school districts so confronted with requests for a share of the business as they are for their insurance business." In fact most school districts are now finding it very difficult, if not impossible, to find insurance carriers willing to write policies the schools can afford.

Of course by reading the articles that appear so often these days in our daily newspapers, we can begin to understand why insurance companies no longer consider schools good risks. For example, the Ridgecrest *Daily Independent* reported recently on vandalism in a high school in its city and, unfortunately, similar reports come from every area of our state:

> Obscenities spray painted on walls, toilets battered into rubble, and classroom movie and overhead projectors left in a useless heap were found yesterday in the wake of a weekend rampage through two wings of Burroughs High School.

Along with reports of vandalism, we also find reports like this one from *The Davis Enterprise:*

> The public agencies in Yolo County have not exactly been beset by a flood of lawsuits, but the premiums for liability insurance have risen steadily and drastically for all of them. In the past year, liability insurance alone for the Davis Joint Unified School District has gone from $24,515 to $40,248, bringing the total bill from $48,378 to $75,302.

Although it is easy to cite vandalism as the reason for the dramatic rise in insurance premiums, it is not the only reason, according to Roland Smith, Field Representative in the Bureau of Management Services, who has done an in-depth analysis of the problem. Although Mr. Smith acknowledges that vandalism has certainly been a contributing factor to the increase in premiums, he says certain insurance company-related factors also helped bring about the drastic change in school insurance. For example, he reports that insurance companies lost huge sums by the end of 1975 as a result of "paid claims, inflation, and incurred claims." He said one of the main factors for the huge loss was the result of court rulings in the late 1960s that "eroded the statutory immunities that had shielded school districts and other public entities from liability claims."

The developments that Mr. Smith has described caught many of us in public education by surprise. In fact until recently most of us did not even know what risk management meant. And most of our colleges and universities with responsibility for training school administrators did not include risk management in their courses of study. It is now apparent, however, that school administrators must become skilled in developing local programs in workers' safety and in the reduction of vandalism, fire losses, and hazards that would increase a district's liability insurance. I hope you find this publication, *Administration of the School District Risk Management Program*, helpful in developing such programs.

However, whatever course of action we take to protect our schools and, thus, our children's lives, we must remind ourselves as Glenn W. Hoffman, Santa Clara County Superintendent of Schools, reminded us in an article he wrote not long ago:

The single most important factor affecting the school building's safety is the attitude of the neighbors toward what goes on in the school building. If the school is truly a part of the community, students and adults will value it, and damage and defacement of the school property will be negligible because its best protectors will become the people it serves.

Superintendent of Public Instruction

Preface

Through its Legislature, California has established standards for the handling of a school district's insurance affairs. Such regulations generally are limited to the definition of what categories of insurance are mandatory and what categories are permissive.

The responsibility for the administration of a school district's risk management program is left with the governing board of the district, which must:

- Identify local needs consistent with statutory provisions
- Determine local policy
- Administer the program

This manual, a revision of the 1969 manual, is the result of a joint effort by the California State Department of Education and the California Association of School Business Officials. It is designed to provide to the governing boards and administrators of school districts information that they may use to advantage in developing, administering, and evaluating the district's risk management program.

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Chapter I
The School District's Risk Management Program

The primary objective of risk management has been described as the minimization of the costs of risk. The fundamental concept of risk management is to identify risk, to eliminate or control exposure to risk, to assume the expense of recurring anticipated losses, and to insure those losses which are not predictable and which are too much for the district to assume. (See Figure 1 for a graphic presentation of the risk management concept.)

A practical risk management program is essential for every school district regardless of its size or location. Accident prevention as a result of risk identification, risk elimination, and loss control—the action taken and the measure of control introduced after an incident occurs—are essential to minimize costs in every jurisdiction. Smaller districts may find pooling arrangements with other districts an effective means of absorbing losses that are within their reserving capabilities, while larger districts may self-insure in larger amounts or carry higher deductibles. But all districts will benefit from good risk management practices.

While few districts have the financial capability to employ a full-time risk manager, the risk management function is an administrative responsibility that should be assigned as a specific duty in every district. Progressive insurance companies, agents, and brokers are adopting the concept of risk management and can provide valuable assistance and guidance in the formulation and administration of the risk management program.

The purchase of insurance is one of the most perplexing problems facing school districts governing boards. Insurance companies were eager to bid for school district business until the late 1960s. However, since that time school district losses from fire, vandalism, and liability have increased rapidly. These losses, plus an uncertain investment market for insurance companies, have resulted in tremendous increases in insurance premiums for some districts. Other districts are finding that certain types of risk coverage premiums have increased to the point where the cost has caused them to assume most or all of their own risks. School district governing boards are faced with the difficult decision of how much insurance a district can afford to purchase and how much risk the district can assume through self-insurance.

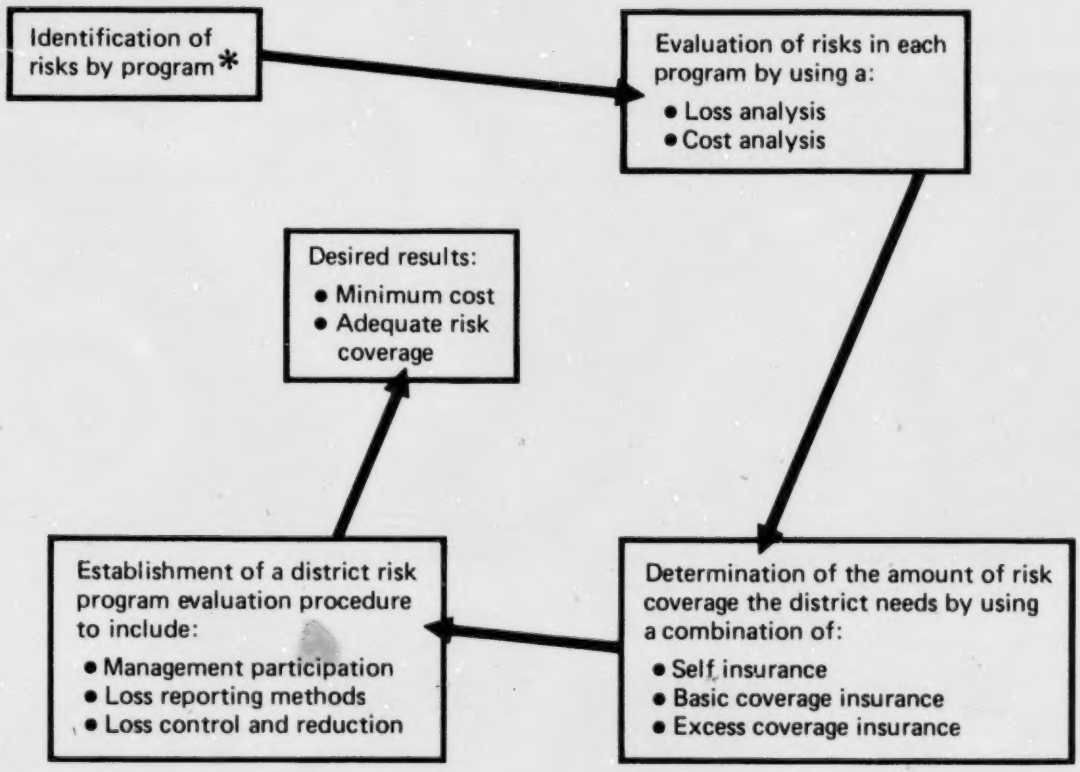
School districts can take positive actions to reduce insurance costs in the future. They can improve their image as a risk group by reducing the number and the amount of claims. To accomplish this, the districts as a whole may find it necessary to institute planned programs in such areas as worker's safety, reduction of vandalism and fire losses, and reduction in liability hazards.

Bidding Practices in School Districts

School districts are not required by law to secure bids in placing insurance. The statute requiring bids before entering into a contract refers to work to be done or materials or supplies to be purchased. Insurance is in neither of these categories.

Insurance is not a commodity to be purchased upon the basis of price alone. In purchasing insurance, the school district should buy a service from a company that has the ability to meet prescribed obligations promptly. Certainly, the district must effect every possible economy in purchasing insurance; however, sound management must be maintained. In placing insurance, the school district must therefore consider primarily the financial stability and reputation for performance of the insurance company and the reputation of the agent who is to represent it.

Certain lines of insurance, mainly in the casualty field, are often competitive. Since rates vary, the school district has an obligation to place its business with due regard to economy. Some school districts have found, however, that negotiating for quotations leads to better results than using a formal bidding procedure. The advantage of competition can thus be obtained without placing the district in a position where price alone might become the controlling factor.


Identification of risks by program*
Evaluation of risks in each program by using a:
• Loss analysis
• Cost analysis
Desired results:
• Minimum cost
• Adequate risk coverage
Establishment of a district risk program evaluation procedure to include:
• Management participation
• Loss reporting methods
• Loss control and reduction
Determination of the amount of risk coverage the district needs by using a combination of:
• Self insurance
• Basic coverage insurance
• Excess coverage insurance

*Risk programs include employee benefits, student insurance, liability insurance, fire insurance, vehicle insurance, workers' compensation and others.

Fig. 1. Risk management system

Distribution of Insurance Coverage

Each school district should adopt a definite policy for the distribution of its insurance coverage. In formulating this policy, the governing board should seek answers to the following questions:

1. How can the district secure adequate and economical insurance coverage?
2. What agents or brokers are willing to participate and upon what basis?

And in answering these questions, the board should pay attention to these points:

1. Insurance must be dealt with as a whole. A sound insurance program cannot result from a collection of unrelated insurance policies. Lack of coordination may lead to adverse results, such as policy nonconcurrency, inconsistency in rates, overlapping coverage, and gaps in the overall program.
2. Participation in school district insurance carries with it an obligation on the part of the agent or broker to render competent service.
3. The district should insist that those agents or brokers through whom it does business display a high level of professional expertise.

A school district generally uses one of the following procedures in placing its insurance coverage:

1. All insurance is handled through one insurance agent or broker who acts as insurance adviser to the district.
2. The insurance is allocated according to type. Under this plan all fire insurance and possibly some related lines are handled by one agent or broker, who acts as adviser to the district on the lines with which he or she is concerned. The other types of insurance are handled by different agents. Thus, at least two or more agents or brokers handle the district's insurance.
3. The insurance is handled through the local agents' association. One member agent is designated as agent-of-record. This agent usually acts as insurance adviser to the district. Commissions received by the association are divided between the agent-of-record and the association as decided by its membership or as directed by the district.
4. All insurance is handled through a single agent or broker, who remits a certain portion of the commission to other district-selected agents or brokers or to his or her association.

Each district should determine a policy regarding the placing of insurance. In working out a plan that will meet its particular needs, the district will be developing a sound, economical, and efficient program.

Role of the Insurance Adviser

Insurance is so technical that in many cases school officials need to depend upon the insurance agent or broker for advice. Therefore, an agent's or broker's ability and willingness to render competent service should be given primary consideration in selecting the person to serve as the district's insurance adviser. The insurance adviser is responsible for tasks such as the following:

1. Advising and assisting the district in the establishment of an effective risk management program.
2. Advising and assisting the district in securing and maintaining adequate valuation and property records.
3. Recommending placement of insurance.
4. Seeking rate reductions through negotiations with rating bureaus for removal of penalties and recognition of credits.
5. Assisting in securing favorable insurance rates by suggesting elimination of fire hazards, suggesting optimum use of fire-detecting and fire-arresting equipment, and reviewing plans for new buildings to provide maximum security from fire.
6. Assisting the district in maintaining adequate insurance records and files.
7. Providing advice and assistance in the settlement of claims.

Chapter II
Statutory Provisions Relating to Insurance

California law provides a broad basis upon which school districts can develop insurance programs needed to protect themselves against losses caused by fire liability resulting from accidents or other causes, financial losses resulting from theft, and the like, and to provide for the welfare of their employees in cases of illness or accidents. The legal provisions pertaining to various types of insurance are summarized in the following sections of this chapter.

Insurance of School Property

1. The insurance of school property is mandatory (Education Code Section 15802 [39601]).[1] This provision is interpreted to mean that fire insurance is required and that other kinds of property insurance, such as insurance against theft, glass breakage, or boiler damage, are permissive.
2. Deductible insurance may be carried at the discretion of the governing board (Education Code Section 15802 [39601]).
3. Either the school district or the contractor may provide for insurance during the course of construction (Education Code Section 15802 [39601]).
4. As a protection to the state, the State Allocation Board may require school districts to insure buildings and equipment that are the property of the state (schools built under the provisions of Division 14, chapters 8 and 10, of the Education Code [Division 1, chapters 5 and 6]). However, no state funds apportioned under the provisions of these chapters may be used to pay insurance premiums (Education Code sections 19410 [15709] and 19564 [16020]).
5. School districts may establish a fund for losses to property covering deductible amounts or noninsured perils (Education Code Section 15802.1 [39602]).

Liability Insurance

1. Each school district is required to insure against the liability of the district for death or injury to any person and for damage or loss of property as a result of any negligent act on the part of the district, its board members, officers, or employees (Education Code Section 1017 [35208]).
2. School districts are required not only to insure against their own liability but also to insure their board members, officers, and employees for any personal liability that might arise from acts performed within the scope of their offices or employment (Education Code Section 1017 [35208]).
3. School districts are permitted to insure against the personal liability of the members of the board or of any officer or employee of the school district as an individual for any act or omission performed in the line of official duty (Government Code Section 990).
4. School districts are not permitted to insure for judgments against an employee for punitive or exemplary damages (Government Code Section 990).
5. School districts may establish a fund for losses from any liability (Education Code Section 15802.1 [39602]).

Workers' Compensation Insurance

1. Division 4 of the Labor Code makes all employers, including public agencies, liable for medical and hospital expenses and partially liable for loss of income due to injuries sustained by employees in the course of their employment.

[1]The corresponding section number in the new (reorganized) Education Code (effective April 30, 1977) is given, where applicable, in brackets after the old section number.

2. A school district must carry insurance to cover its liability for compensation with the State Compensation Insurance Fund and not with any other insurer unless the fund refuses to accept the risk when the application for insurance is made (Insurance Code Section 11870). The district may also self-insure for workers' compensation (the code refers to this as "permissibly uninsured"). The authority for self-insuring is contained in Section 11870 of the State Insurance Code and Labor Code Section 3700.
3. School districts may establish a fund for losses under workers' compensation (Education Code Section 15802.1). (See Chapter XIII on self-insurance.)
4. The county superintendent of schools may, with the approval of the State Compensation Insurance Fund, secure under one policy the insurance needed to cover the liability for compensation of school districts in the county that consent thereto, pay the premium from the county school service fund, and transfer from the funds of the districts to the County School Service Fund the amounts of money required to pay the districts' proportionate shares of the premium (Education Code Section 812 [1252]).
5. The governing board of a school district may provide, for persons authorized by the board to perform volunteer services for the district, insurance coverage that is the same as or comparable to that provided for its employees, including coverage under provisions of Division 4 (commencing with Section 3201) of the Labor Code (Education Code Section 1019 [35212]).

Student Accident Insurance

1. Each district may provide medical or hospital service, or both, through nonprofit membership corporations or through accident insurance, for pupils of the district who are injured while participating in athletic activities under the jurisdiction of the district. In either case, the cost may be borne by the district or may be paid by the insured pupils (Education Code Section 11851 [49470]).
2. Each district must provide accidental death insurance in the amount of $1,500 for each member of an athletic team. In addition, each school district must provide insurance protection for medical and hospital expenses for accidental bodily injuries in the amount of at least $1,500 for any member of an athletic team transported to or from school or other place of instruction or the place of an athletic event under the sponsorship or arrangement of the school district or the student body organization. The cost may be borne by the district, the student body organization, or the insured pupils (Education Code Section 31752 [32221]). "Member of an athletic team" means the member of any extramural athletic team. "Member of an athletic team" also includes band or orchestra members, cheer leaders or their assistants, pompon girls, team managers and their assistants, and any student or pupil directly assisting in the athletic event or activities incidental thereto, but only while such members are being transported to or from the athletic event (Education Code 31751 [32220]).
3. Any district that does not employ at least five full-time physicians may provide medical or hospital services, or both, through nonprofit membership corporations or through accident insurance for all pupils of the district for injuries sustained on school premises while pupils are in required attendance or while they are being transported by the district. The cost may be paid from the funds of the school district or by the insured pupils (Education Code Section 11853 [49472] and Insurance Code Section 11512.4).
4. Group, blanket, or individual student accident policies may be provided or made available by a school district, but students may not be required to accept the services provided under the policies (Education Code sections 11851 and 11853 [49470 and 49472]). The governing board may authorize the distribution by school district personnel of printed matter furnished by the insurance company or membership corporation (Education Code Section 11854 [49473]).
5. Accident insurance may be purchased from, or memberships may be taken in, only those companies or corporations authorized to do business in the state of California (Education Code Section 11851 [49470]).
6. If a school district does not provide or make available medical and hospital services for junior high school or high school students who are injured while participating in athletic activities, the board must notify in writing the parent or guardian of each student that these

services are lacking (Education Code Section 11852 [49471]).

7. School districts conducting excursions and field trips shall provide or make available medical or hospital service for pupils injured while participating in such excursions and field trips (Education Code Section 1082 [35331]).

Group Insurance for School Employees

1. A school district may adopt a system of group life, disability, accident, and health insurance for the benefit of its officers, employees, and retired employees who elect to accept the benefits and who authorize deduction of the insurance premiums from their salaries (Education Code Section 13009 [44041] and Government Code Section 53201).
2. A school district may adopt a system of medical and hospital services through nonprofit membership corporations for the benefit of its employees who elect to accept the benefits (Government Code Section 53202.1).
3. A district may authorize the payment from district funds of any portion of the premiums or membership dues for group life, accident, or health insurance, or for medical or hospital services for officers and employees of the district (Government Code Section 53205). The same provisions apply to premiums for group accident and health insurance and to medical and hospital service insurance for a spouse or dependent children of an officer or employee of the district (Government Code Section 53205.1).

Fidelity Bonds

1. Each school employee who handles school district funds must be bonded under a suitable bond indemnifying the district against loss (Education Code Section 17207 [41021]).
2. School employees who handle school district property may, at the discretion of the board, be required to be bonded (Education Code Section 17207 [41021]).
3. Fidelity bonds may be in the form of a name schedule bond, a schedule position bond, or a blanket bond (Education Code Section 17207 [41021]).
4. The officer in charge of the revolving cash fund of a school district must be bonded in an amount equal to twice the amount of the revolving cash fund. The bond may be of the type specified in Education Code Section 17207 [41021] or by a faithful performance-type bond (Education Code Section 21302 [42801]).
5. The cost of required fidelity bonds must be paid from the funds of the school district (Education Code sections 17207 and 21302 [41021 and 42801]).

General Information

1. School districts may join under a joint powers agreement to provide for insurance coverage (Education Code Section 15802.2 [39603]).
2. School districts are permitted to provide for volunteer workers insurance coverage that is comparable to that furnished regular employees (Education Code Section 1019 [35212]).

Chapter III
Insurable Values

Insurable value is defined as the replacement cost of a property less depreciation and less noninsurable or excluded items, including underground piping, foundations, and land. A property may also be insured for the cost to replace or rebuild it with like kind and quality at current market costs without allowance for depreciation.

Thorough knowledge of the current value of property insured is necessary for the following reasons:

1. The value of the property must be determined before it is possible to know how much insurance to buy.
2. When fire insurance policies are to be purchased or renewed, a statement of values must be filed with the insurer or its rating agency.
3. When school fire insurance is written with a coinsurance or average clause, the insured must maintain a specified ratio of insurance to value to avoid penalty for partial losses. In the event of loss, the district must be able to establish that it is carrying an amount of insurance sufficient to comply with the coinsurance clause.

School fire insurance generally is written on a blanket basis; that is, buildings and contents are insured as a single item on an average rate. The problems involved in determining the value of property in each of these two categories are quite different. It is desirable to consider the problems of property appraisal for buildings separate from the contents.

Appraisal of Buildings

The following methods are used by school districts to ascertain building values:

1. Appraisal made by an independent firm
2. Appraisal made by an insurance company
3. Appraisal made by the district
4. Estimate based on construction cost data appraisals made by the district staff

Formal Appraisals

A commercial firm of appraisers usually makes the most accurate estimates of the insurable values of buildings. The cost of this service, however, may prevent its use.

School districts should consider employing an appraisal firm under the following circumstances:

1. When an older building for which there is no recent or adequate appraisal information is involved
2. When an unusual structure, such as an abandoned or condemned building, is involved
3. When complete and accurate building cost data are lacking

Insurance Company Appraisals

To establish insurable values, a school district may use the services of an insurance company in the following ways:

1. An appraisal established by a professional appraisal firm may be updated periodically and may be kept current.
2. The insurance company may establish the original appraisal and may provide periodic revisions.

District Appraisals

The State Allocation Board has established a method for determining building cost allowances under the State Building Aid Law. The following is a procedure used in computing replacement value:

1. From the floor plan of a specific building, identify each space (classroom, gymnasium, and toilet facilities), and determine the number of square feet in each space.
2. Find the appropriate unit cost per square foot for each of the identified spaces from the Base Schedule of Allowable Unit Costs for

School Construction prepared by the Office of Local Assistance.[2]

3. Determine the geographic adjustment factor for the area in which the building is located and apply this factor to the appropriate unit cost per square foot.
4. Adjust the unit cost per square foot by the latest periodic index adjustment factor established by the State Allocations Board.
5. Compute the replacement cost of each space, and then add the costs of all the spaces to obtain an insurable replacement cost based on the state aid maximum allowable for the building.
6. Apply the adjustment for small building areas, if applicable.

Construction Cost Data Appraisals

The contract cost of a building can provide the basis for an appraisal, provided the following conditions are met:

1. The data on original cost are complete and accurate.
2. The costs of all alterations, replacements, or modernizations are reported.
3. The data are in such form that the cost of excluded items can be separated from the cost of insurables.
4. The original cost is related to replacement cost based on building cost indexes.
5. Adjustment is made for depreciation, except where insurance is written on a replacement cost basis.

Appraisal Program Guidelines

To determine the insurable values of its buildings, a school district may establish an appraisal program such as the following:

1. *Establish a starting point.* For older buildings, secure an appraisal, preferably from a firm of professional insurance appraisers. For new buildings, record contract cost data. The cost of noninsurables must be excluded.
2. *Determine current replacement cost each year.* The building cost index can be applied to adjust all building cost figures so that changes in cost are reflected. All valid former appraisal figures can be adjusted in this way regardless of how the appraisals were made originally.
3. *Determine the amount of depreciation.* Subtract that amount from the adjusted replacement cost to determine the insurable value.
4. *Ask an insurance company to survey insurable values.* Do this whenever established insurable values become questionable for any reason. If a question still remains, a similar school property may be appraised by a professional appraisal agency.

Depreciation Factors

The school district should always purchase insurance for a building on a replacement cost basis. In the event of loss, the building is replaced at no additional cost to the school district because of depreciated value or increased costs of construction. When insurance is written on a depreciated basis, depreciation can be figured as follows, with the maximum amount of depreciation not to exceed 70 percent:

1. *Fireproof construction* (1½ percent per year). Includes exterior and interior bearing walls of approved masonry or reinforced concrete; building frame of steel or reinforced concrete; and interior walls, floors, roofs, and permanent partitions of less than four-hour fire-resistive rating.
2. *Other masonry or concrete construction* (1¾ percent per year). Includes exterior walls of approved masonry or reinforced concrete and interior walls, floors, roofs, and partitions of less than four-hour fire-resistive rating.
3. *Light, noncombustible construction* (2 percent per year). Includes exterior walls of noncombustible materials with at least a two-hour fire-resistive rating and interior members of noncombustible materials.
4. *Frame construction* (2½ percent per year). Includes buildings in which exterior walls and interior construction are wholly or partly of wood, including masonry veneer, and stucco on frame buildings.
5. *Unprotected metal construction* (3½ percent per year). Includes structural supports of unprotected metal and walls and roofs of sheet metal or of other noncombustible materials.

These depreciation rates are considered by many insurance experts to be high. Some valuation services used by insurance companies hold that, if a building is being used for the purpose for which it was constructed, the total depreciation should not exceed 50 percent. To avoid a coinsurance penalty

[2] *Applicant Handbook: State School Building Aid.* Prepared by the Office of Local Assistance. Sacramento: California Department of General Services, 1976, Section A-1600.

under the terms of the "average clause" of the policy, each school district should consult with competent specialists (architects, insurance agents, insurance company engineers, and appraisers) before establishing depreciation rates on specific buildings.

Although the original cost of a structure has historical significance, the insurable value of the structure is always determined in reference to its current replacement cost. Before adjustments for depreciation are made, the current replacement cost of an identical structure at the given location should be determined. Available building cost indexes that reflect variations in labor and material costs by month and year should be used for this purpose. Indexes are calculated on a regional basis and are essential in keeping valuation records current.

Appraisal of Contents

The purposes of the contents appraisal program are (1) to establish insurable values to determine the amount of insurance to be carried; and (2) to establish a basis for reaching a settlement in the event of a loss. Contents include supplies, equipment, and furnishings that, although housed in a building, neither constitute an integral part of the building nor are permanently attached to the building.[3] Since such a definition is general in nature, many items of fixed equipment commonly found in schools may be classed either as contents or as parts of the building. Items included in this list are chalkboards, bulletin boards, large display cases, office counters, shop machinery, unit heating or ventilating equipment, benches, and tables or desks that are attached to the floor or wall. For good management of the school district's insurance program, the following considerations should be kept in mind in dealing with such items:

1. The school district usually determines whether borderline items are to be considered as contents or as part of the building in which they are found.
2. All items of value are to be included as either building or contents; nothing is to be counted twice.
3. When building rates are lower than content rates, it is usually advantageous to include items that can be considered permanently fixed as part of the building rather than as contents.

[3] *California School Accounting Manual* (1976 edition). School Business Administration Publication No. 8. Sacramento: California State Department of Education, 1976, Part IV.

Contents Valuation

The means commonly used by school districts to determine value of buildings are also used to determine value of contents. These means are the following:

1. Appraisal made by firms of professional appraisers
2. Appraisal made by an insurance company
3. Estimate made by the district, based on purchase cost data

Building appraisal and contents appraisal programs differ in procedures used to maintain an up-to-date record of values. This difference results from the relative impermanence of furniture and equipment.

The nature of contents may be described as follows:

1. Acquisition of items is more or less continuous.
2. Replacement of items is relatively frequent.
3. The unit value of items varies greatly.
4. Items are subject to removal and relocation.

Because of the inherently transient nature of contents, the appraisal program must provide for value as of a given date but must also provide for a system of records to keep valuation data current. (See Appendix A, "Suggested Inventory Procedures," and Appendix B, "Sample Inventory Form.")

Contents Records

An effective inventory record system for any school district should produce necessary information as economically as possible. In deciding what records to maintain, each district should weigh carefully the use to be made of recorded data against the cost of maintaining the records. The two basic insurance requirements that the contents records program should provide are:

1. Information for determining the amount of insurance to carry
2. Records that are sufficient to establish proof of loss

In determining the most economical means of meeting these requirements, the following points should be considered:

1. In general, the kind and value of contents in one classroom are likely to be similar to those in other classrooms.
2. In regular classrooms the chief variable in the number of units during a school year is the number of student desks or chairs and the

amount of "floating" equipment, such as maps and audiovisual equipment.

3. In the event of loss, enrollment records and statements of teachers are strong evidence in establishing the number of student desks and other major items of equipment.
4. In the event of loss, the value of items can be approximated by appraising the value of similar items in prototype classrooms. Even if elaborate records are maintained, such a comparison is a major consideration in reaching a settlement.

Contents Depreciation

Depreciation of school equipment varies widely because of differences in maintenance and replacement policies. Unless accurate records of equipment depreciation are maintained, an annual aggregate depreciation factor should be applied with the approval of the insurance carrier.

Contents Appraisal Program

To keep an accurate account of the value of the contents of buildings, a school district should establish a contents appraisal program such as the following:

1. Determine what items are to be considered as contents. All items of value should be included either as parts of buildings or as contents. No item should be counted more than once. Because premium rates are lower for buildings than for contents, borderline items should be considered part of the building rather than as contents. The inventory should be made annually room by room and building by building. It may be made by the teaching staff at the end of the school year.
2. Identify articles that have high unit value, such as projectors and office machines. The manufacturer's serial number may be used, or the articles may be tagged. For each such item, maintain an individual record identifying the article and recording the date of acquisition and the purchase price.
3. Price each item inventoried on the basis of current market prices so that it may be replaced with a new article of similar kind.
4. Total and summarize the cost data for the contents of each building.
5. Adjust the total value of the equipment for depreciation. If a consistent policy of maintenance and replacement of all equipment is followed, a schoolwide or districtwide depreciation rate of from 25 percent to 33⅓ percent is usually reasonable.
6. Maintain on a district basis separate records of all acquisitions and all retirements.
7. Provide for recording transfers of items of equipment from one school to another school.
8. Keep the inventory in a fireproof safe or, preferably, keep a second copy elsewhere.

Chapter IV
Fire Insurance

An adequate fire insurance program is essential to the maintenance of a school district's plant and educational program. A standard fire insurance policy provides protection against losses resulting from fire and lightning and, by endorsement, covers additional perils such as vandalism and malicious mischief. In smaller districts, combining fire and liability coverage in a package policy is often desirable.

Experience suggests that all policies should require that a notice of cancellation be given at least 90 days in advance to allow sufficient time to obtain other coverage.

Most companies follow ISO (Insurance Service Office, the recognized governing body for property and liability insurance rates and forms) rules, which no longer permit term discounts for fire insurance premiums. Most insurance companies rerate all their policies on an annual basis, even though they are written for a term longer than one year.

Average-Clause Coverage (Coinsurance)

Average-clause coverage (coinsurance) is a fire insurance plan under which the insured receives a lower rate on his or her insurance if he or she carries an amount of insurance equal to a certain percent of the value of the property. If the person fails to carry this amount, he or she is penalized in the event of a loss. Coinsurance is usually carried in the amount of 80 percent or 90 percent. Therefore, assuming 90 percent coinsurance, a property worth $100,000 must be covered by a $90,000 policy to collect a loss in full. If only $60,000 in insurance coverage is carried, recovery is $^{60}/_{90}$ or two-thirds of the loss.

Agreed-Amount Clause

Some insureds may fear, particularly in periods of inflation, that they have insufficient insurance coverage and are, therefore, subject to a coinsurance penalty. This fear can be eliminated by the use of an agreed-amount clause. Under this clause the insured and the company agree to values. Each year the insured files a new statement of values, and if acceptable to the company, the agreement is extended. During the time that the agreed-amount clause is in effect, the coinsurance clause does not apply, and the insured cannot be penalized.

Actual Cash Value Versus Replacement Cost

Actual cash value, which is the basis of valuation in a standard fire insurance policy, amounts to replacement cost less depreciation. If insurance is purchased on this basis, the school district must make a contribution to offset the depreciation loss. But because they are usually unable to set aside funds for depreciation, school districts frequently purchase insurance on a replacement cost basis for both buildings and building contents. Paying the small additional premium for replacement cost coverage is a good alternative to paying a substantial amount in the event of loss.

Stop-Loss Insurance

Stop-loss insurance is the purchase of enough coverage to protect a school district against its determined maximum possible and maximum probable loss exposures. The stop-loss insurance amount is lower than the total of the school district's building and contents values, and it is pinpointed to the maximum loss exposure areas. The insurance company thus has lower limits of insurance under its policy and does not need to purchase the amount of reinsurance protection that it would if it were writing a policy insuring total values. The premium cost of the policy is therefore less, without the cost of reinsurance which would otherwise be needed, and the policy coverage is tailored economically to the true catastrophe loss exposures of the school district.

A variation of stop-loss philosophy requires the school district to assume a large deductible; and

after the aggregate of individual fire losses above $1,000 have equaled the deductible, the insurance company then covers all losses for the remainder of the contract period.

Forms and Rating Plans

Coverage on school property may be written in several ways. No single plan will be best for all school districts. The services of a competent agent or an agents' association may be used to review the needs of the district and to recommend the most suitable program. The following forms and plans should be considered:

1. *Multiple location building and equipment plan.* This rating plan is a part of the fire policy with the school form attached and is subject to the perils of fire, extended coverage losses, and vandalism. Reductions from normal rates of 20 percent to 40 percent may be obtained where loss experience has been favorable. To be eligible, a district must meet the following conditions:
   a. Two or more locations are required. Each separately rated building or structure is considered to be a separate location.
   b. The sum of values elsewhere than at the principal location must equal at least 10 percent of total value and must amount to at least $50,000.
   c. A coinsurance clause of at least 90 percent must apply.
   d. A basic premium of at least $1,000 must be developed. The basic premium is the total premium computed upon values submitted in the application for average rate, including premiums for coverage against fire, extended coverage losses, malicious mischief, and vandalism.
2. *Public and institutional property form* (PIP). Use of this plan requires an annual inspection of all property by the rating bureau or company and two inspections annually by the insured. Cooperation of the insured in complying with recommendations is an integral part of this program. The PIP form contains the following features:
   a. The coverage may be blanket insurance on a specific schedule, or it may be a combination of blanket and specific insurance with 90 percent or 100 percent insurance.
   b. The form provides an agreed amount that is to be either 90 percent of 100 percent of the amount shown in the statement of values. The agreed amount must be renewed each year.
   c. The plan provides coverage against the perils of fire, extended coverage losses, and vandalism.
   d. A multiple-location credit of 15 percent is allowed for all perils covered.
   e. No surcharge is required for adverse experience.
   f. A $100 deductible is required on all perils. The deductible applies separately to each building (including contents) and to personal property in the open. The aggregate deductible amounts to $1,000 per occurrence.
   g. A replacement cost endorsement applying to both buildings and equipment and not requiring rebuilding on the same premises may be attached.
   h. The plan calls for an annual premium of at least $500.
   i. The prescribed form contains extensions of coverage: additional insurance on personal property away from the premises; personal property of employees; newly acquired property; and valuable papers.
3. *Package policy plan.* A multiple-line package plan may include both property and casualty coverage in a single policy. This form of coverage has many advantages and compares favorably with other methods of writing insurance. The property coverage is basically the same as that found in the public and institutional property form, and the liability coverage is normally like that of the comprehensive general liability policy. Many other coverages, such as automotive, steam boiler, fidelity, money and securities, burglary, and all-risk floaters may be added to the package. Package policies have many advantages for the insured, such as the convenience of one policy, one expiration date, and one premium. These policies may reduce gaps or duplications in coverage.
4. *Additional perils.* In addition to the standard perils of fire, extended coverage losses, and vandalism and malicious mischief, the plans previously described may be broadened to cover additional perils as follows:

a. *Optional perils (broad-form perils endorsement).* Policies may be extended to cover falling objects; weight of ice, snow, or sleet; collapse of buildings; water escape; and freezing of plumbing and heating systems.
b. *Special extended coverage endorsement.* This endorsement extends the policy to include not only the perils listed in the previous paragraph but all other risks of physical loss, subject to customary exclusions, which include war, flood, and earthquake. Earthquake may be covered separately if desired.

Deductibles

In developing its insurance program, a school district should consider deductible coverage because the district will probably not benefit from reimbursement for many small claims.

Extension of Coverage

The insurance plans identified in Table 1 contain certain extensions of coverage of varying significance which can be of importance in some instances.

If one or more school buildings were seriously damaged, the cost of carrying on necessary operations could be substantial and the coverage of $5,000 grossly inadequate. A plan may be developed as to what actions would be taken if a building became untenantable. An estimate may then be made of all initial and continuing increased costs of operation, and adequate "extra-expense" insurance can be purchased as required.

Valuable papers should be kept in fire-resistive cabinets for protection against damage or destruction, and a school district should consider "all-risk" insurance to replace damaged or destroyed records.

TABLE 1

Insurance Plan Extensions of Coverage

Type of extension	Extensions covered, by the type of insurance plan		
	Standard fire form	PIP form	Package plan
Personal property of employees (up to $5,000)	Yes	Yes	Yes
Personal property off-premises (up to $5,000)	Yes	Yes	Yes
Extra expense (up to $5,000)	Yes	No	Yes
Valuable papers (up to $5,000)	No	Yes	Yes
Newly acquired property (up to $100,000)	No	Yes	Yes
Trees, plants, and shrubs	No	No	Yes

Chapter V
Liability Insurance

Because of the doctrine of governmental immunity, school districts in some states are not subject to full liability for torts committed by their officers, agents, or employees. In California, school districts have legal responsibility for the negligence of their employees and for dangerous or defective conditions of school property. School district liability may result from any of the following circumstances:

1. *Injury to pupils resulting from failure to provide adequate supervision.* The school district has a responsibility to provide supervision for pupils. Failure to provide this supervision may be construed as negligence.
2. *Injury to person or property resulting from the negligence of officers or employees of the district or of anyone authorized to act for the school district.* In general, negligence means failure to act as a reasonably prudent person would be expected to act under like circumstances. Since this definition is subject to very broad interpretation, the school district's exposure to a liability claim may be considerable.
3. *Injury to person or property resulting from failure to maintain a safe place or to conduct operations in a safe manner.* Because of statutory distinctions, cities and school districts, even when they operate identical recreation programs, are subject to different liabilities. Since a school district is responsible for providing adequate supervision, failure to do so may render the school district liable.

Liability of School Districts and School Personnel

The following sections from the Government Code and the Civil Code specify the liability of school districts and their personnel:

1. Government Code Section 815.2 provides that:

   (a) A public entity is liable for injury proximately caused by an act or omission of an employee of the public entity within the scope of his employment if the act or omission would, apart from this section, have given rise to a cause of action against that employee or his personal representative.

   (b) Except as otherwise provided by statute, a public entity is not liable for an injury resulting from an act or omission of an employee of the public entity where the employee is immune from liability.

2. Government Code Section 820 provides that "... a public employee is liable for injury caused by his act or omission to the same extent as a private person." These code sections are modified by specific immunities provided in Government Code sections 820.2 through 822.2. The most important section is Section 820.2: "... a public employee is not liable for an injury resulting from his act or omission where the act or omission was the result of the exercise of the discretion vested in him. ..."

3. Civil Code Section 1714 states:

   Everyone is responsible, not only for the result of his wilfull acts, but also for an injury occasioned to another by his want of ordinary care or skill in the management of his property or person, except so far as the latter has, wilfully or by want of ordinary care, brought the injury upon himself. ...

Purpose of Liability Insurance

The nature of the school operation and of the statutory liability involved exposes both the school district and its personnel to liability suits. Therefore, the California Legislature has made it mandatory that each school district carry insurance covering the legal liability of the district and the personal liability of its board members and employees when they are acting within the scope of their office or employment. A school district may insure against the personal liability of its officers and employees for any act or omission performed in the scope of employment. In 1967

the Legislature adopted Education Code Section 1019 [35212],[1] which authorizes the governing board of a school district to provide insurance coverage for persons authorized by the board to perform volunteer services for the school district.

Liability insurance is written to cover those who are named as insured in the agreement or policy. Since members of governing boards of districts and district employees must be covered, all must be named as a group in the policy; otherwise they are not covered. To comply with this requirement, a governing board should include the insured in its agreement in a form that covers school district personnel as well as the district. A typical inclusion reads in part: "The _____ School District, the members of the governing board, and employees, individually and collectively when acting within the scope of their office or employment. . . ." Although such a statement probably covers employees while working with student body organizations, confusion may be avoided by including a statement to the effect that members of student body organizations while under the jurisdiction of the governing board are among the named insured. Since liability coverage is mandatory, the policy should be endorsed with wording of this type: "Other terms and conditions of this policy notwithstanding, it is agreed that this policy shall cover that which is required to be insured under provisions of Education Code Section 1017" [35208].

School districts now must cover officers and employees against ordinary on-the-job liability. However, a number of borderline risks may be construed as either on-the-job or as personal acts even though they arise from job responsibilities; e.g., libel, slander, false arrest, malicious prosecution, and trespassing. Such risks are not always clearly considered by law to represent on-the-job liability and are not covered by an ordinary liability policy. School officers and employees may be insured against such risks under provisions of Government Code sections 989 and 990, which cover any act or omission within the scope of employment. Such coverage under the district's liability policy requires a special endorsement.

The coverage that liability insurance ordinarily provides includes the following:

1. Investigation of all liability claims
2. Defense against all liability suits brought against the district, members of the governing board, or employees, whether the suits are justified or not
3. Payment of all court judgments or payments in anticipation of possible judgments, within the limits of the policy, in which liability has been charged but not proved (settlement out of court)
4. Payment of all court costs levied against the district, its board members, or employees, and of interest accruing after entry of judgment, as well as premiums on attachment, appeal, and bail bonds

When school property or facilities are being used or leased for other than school purposes, the district should inform the user of his or her possible liability and should require a certificate of insurance naming the school district as the additional insured for any claims resulting from the user's activities.

Liability Insurance Policies

Relationships that can give rise to liability claims are numerous. Although liability insurance that covers specifically enumerated hazards may be secured, the district should secure comprehensive liability insurance that covers all legal liability.

The policy form for liability coverage contains the following four divisions:

1. *Insuring agreements*. This section specifically defines the responsibilities of the insuring company.
2. *Exclusions*. Ordinarily, exclusions should be limited to liability covered by workers' compensation insurance or other insurance. Most policies, however, contain many other exclusions that may or may not be removed, depending on the manner in which a "1017-coverage" endorsement is worded.
3. *Conditions*. This section defines the responsibilities of the school district under the agreement, and it describes the procedures to be followed.
4. *Definitions and special features*. This section defines the hazards to be covered, describes the property involved, and sets forth any special features of the policy.

Accident and health insurance should not be confused with liability insurance. An injury suffered by a pupil or other person in an accident in which negligence of the insured school district

[1] The corresponding section number in the new (reorganized) Education Code (effective April 30, 1977) is given, where applicable, in brackets after the old section number.

or its employees is not a factor does not represent a circumstance in which the school district has a legal obligation to the injured party. Therefore, such accident cases are not covered by liability insurance.

Protection may be obtained for medical expenses incurred by or for any person who sustains bodily injury caused by an accident while he or she is on the property of the insured with his or her permission, even though the insured is not legally liable. While this coverage, known as medical payments coverage, does not represent a liability hazard, it may be included in the comprehensive liability policy. Coverage may be written to apply to vehicular accidents only, or it may be included in the comprehensive liability policy to cover other types of accidents. Some legal advisers to school districts may not approve the purchase of medical payments coverage because it is accident insurance rather than liability insurance. Such coverage involves the expenditure of public funds for something for which a school district may not be liable.

Premium Rates and Terms of Policies

Rates in the casualty field are competitive. The problem of whether to bid or to negotiate for coverage is a constant one and is best considered in the light of three factors:

1. The condition of the market for the type of insurance under consideration
2. The fact that insurance is not a commodity to be purchased for price alone
3. The fact that negotiations sometimes lead to better results than formal bidding procedures

Policies are usually written on an annual or three-year basis, but sometimes on a continuing basis. Whatever the term of the policy, the premium for any motor vehicle portion is usually collected annually without discount for term. Usually the premium is subject to annual revision based on audit of average daily attendance and other factors affecting the premium. It is desirable for the policy period to coincide with the fiscal year.

Recommended Practices

The following procedures are suggested as guides in handling a school district's liability insurance program:

1. Determine what coverage is desired.
2. Prepare specifications.
3. Prepare a district prospectus.
4. Establish an adequate recordkeeping system.
5. Maintain an active program of accident prevention.

Self-Insured Protection

Education Code Section 1250 [35214] permits any school district to self-insure, as provided in Section 1017 [35208]. The governing board may provide protection against liability, partly by means of its own funds and partly by means of insurance written by insurance companies. Education Code Section 15802.1 [39602] provides for establishing a fund for liability losses. For additional information on self-insurance, refer to Chapter XIII in this manual.

Umbrella or Excess Coverage

It is often more economical to secure high limits of umbrella or excess coverage and keep the primary coverage to $500,000 or less. Usually broader coverage is obtained with the umbrella or excess added to the primary, rather than with just the primary coverage alone. If possible, umbrella or excess coverage in excess of $5 million is desirable even for small school districts.

Insurance Coverage

Coverage required by law (Education Code Section 1017 [35208]) must be included with any other coverage desired. The permissive coverages authorized by Government Code sections 989 and 990 should be part of the district liability insurance program.

Insurance Specifications

The desired coverage should be described exactly. The insurance adviser should be consulted because underwriting practices and policy language are changing constantly. The specifications should contain the following information:

1. Type of policy wanted
2. Minimum rating required to make an insurance company acceptable
3. Name of the insured, including members of the governing board and the officers and employees of the school district
4. Kinds of coverage required, including everything for which the district can be held legally liable
5. Limits of liability according to the maximum award that might be made (Since the size of an award has no relation to the size of the

district, most authorities advise coverage of not less than $5 million, and many districts carry $10 million or more.)
6. Specific policy conditions (Exclusions should be examined carefully. If the district has any exposure not covered in the policy, a special endorsement should be considered to eliminate the effect of the exclusion.)
7. Policy period (dates)
8. Premium period

Using exact specifications is the only way to prevent manipulation of policy coverage to secure premium reductions. Unless precise specifications are used, premium quotations are meaningless.

District Prospectus

Exposure data and loss experience should be included. The prospectus should contain the following information:

1. Type of organization, including a statement giving in detail the district organization, the grade levels maintained, and the groupings of the different grade levels maintained within the district
2. District-owned vehicles (A schedule that lists the passenger cars, commercial vehicles, buses, and trailers owned by the district should be attached to the prospectus.)
3. Number of employees as of a specific date; number of certificated employees; number of classified employees
4. Automobile—nonownership: self-propelled vehicles or trailers
   a. Class I: number of employees receiving remuneration from the district for the regular use of their cars in performing their duties
   b. Class II: number of employees or direct representatives not included in Class I
5. Elevators and hoists: location; type and power; number; total rise and number of landings; name and type of interlock; name and type of car gate (List if applicable; if none, write "None.")
6. Schools and other properties
   a. Average daily attendance of pupils—attached as Schedule B. (When other than school properties are used, indicate that fact here.)
   b. Child Development Programs (infant through age fourteen); infant programs, preschool age programs, and school age programs (extended day) (List if applicable; if none, write "None.")
   c. Other data, including the following: number of seats in grandstands, bleachers, and the like, indicating number of indoor and outdoor bleachers, permanent and portable bleachers (List, if applicable; if none, write "None."); number of swimming pools (List by location; if none, write "None."); other facilities (attached as Schedule C)
   d. Professional or malpractice exposure (activities of doctors and nurses confined to pupil examination by state law): number of full-time and part-time doctors; number of full-time nurses; number of audiometrists; number of beds in first-aid unit of infirmary (except for cots in nurses' offices at schools and emergency stretchers in temporary first-aid stations at schools); number of beauty parlors; number of barber shops; and number of clinics
7. Protective liability
   a. Contracts for construction, alterations, improvements, and the like, providing public liability, property damage, and workers' compensation insurance, to be carried by the contractors (e.g., requiring bodily-injury liability insurance limits of $_____ per person, $_____ per accident or occurrence, and property damage liability limits of $_____; anticipating the expenditure of approximately $_____ for construction, alterations, improvements, and the like during the next _____ months)
   b. Contracts for pupil transportation, providing public liability, property damage, and workers' compensation insurance, to be carried by the contractors (e.g., requiring bodily-injury liability insurance limits of $_____ per person, $_____ per accident or occurrence, and property damage liability limits of $_____; anticipating the expenditure of approximately $_____ on contracts for pupil transportation during the next _____ months)
8. Driver training courses, indicating the extent of the courses and the use of district-owned, rented, or loaned automobiles
9. Other exposures, including mountain camps and recreational areas operated by the

district, whether owned or not; radio or television stations operated or used by the district; courses in nursing operated in cooperation with hospitals; courses for beauticians; classes in aircraft mechanics and maintenance; flight schools or training; watercraft operations; business activities for student body organizations; use of buses for transportation purposes other than carrying pupils to and from school; and products liability in cafeteria operations

10. Loss experience

Recordkeeping System

Records should contain information about every claim, investigation, and settlement. All claims must be filed in accordance with Government Code Section 910 and certain following sections. Claims records should be considered permanent records of the district.

Accident Prevention

Each district should maintain a program of accident prevention. The following safety practices have been found useful in preventing accidents:

1. Making regular inspections
2. Gaining cooperation of the safety engineer and claims investigators of the insurance company to identify and eliminate hazards
3. Using safety committees
4. Using corrective measures after an accident
5. Defining supervisory responsibilities
6. Developing inservice training programs on accident prevention for all district personnel and pupils
7. Establishing standards governing hiring and training of transportation personnel, especially drivers of school buses
8. Evaluating all vehicle accidents
9. Securing permission of parents before allowing students to take part in special excursions, to act as traffic officers, and the like

Chapter VI
Student Accident Insurance

Education Code Section 11853 [49472][1] provides for medical and hospital services for pupils:

> The governing board of any school district which does not employ at least five physicians as full-time supervisors of health, or the equivalent thereof, may provide, or make available, medical or hospital service, or both through nonprofit membership corporations defraying the cost of medical service or hospital service, or both, or through group, blanket, or individual policies of accident insurance or through policies of liability insurance from authorized insurers, for injuries to pupils of the district or districts arising out of accidents occurring while in or on buildings and other premises of the district or districts during the time such pupils are required to be therein or thereon by reason of their attendance upon a regular school day of such district or districts or while being transported by the district or districts to and from school or other place of instruction . . . No pupil shall be compelled to accept such service without his consent, or if a minor without the consent of his parent or guardian . . . The cost of the insurance or membership may be paid from the funds of the district or districts, or by the insured pupil, his parent or guardian. . . .

Should the district opt to pay for the student accident insurance, it may be included in the school district's multicoverage policy.

Coverage for Extramural Athletics

The Education Code contains an article specifying that the governing board of a school district must provide the following coverage for extramural athletics:

> . . . Accidental death insurance in an amount of at least one thousand five hundred dollars ($1,500) for each member of an athletic team and . . . insurance protection for medical and hospital expenses resulting from accidental bodily injuries in an amount of at least one thousand five hundred dollars ($1,500) for all such services for each member of an athletic team . . . while such members are engaged in or are preparing for an athletic event promoted under the sponsorship or arrangements of the educational institution or a student body organization thereof or while such members are being transported by or under the sponsorship or arrangement of the school districts or a student body organization thereof to or from school or other place of instruction and the place of the athletic event . . . (Education Code Section 31752 [32221]).

Education Code Section 31751 [32220], as amended by the Legislature in 1972, defines a member of an athletic team as follows:

> "Member of an athletic team" means member of any extramural athletic team engaged in athletic events on or outside the school grounds, maintained or sponsored by the educational institution or a student body organization thereof. "Member of an athletic team" also includes members of school bands or orchestras, cheerleaders and their assistants, pompon girls, team managers and their assistants, and any student or pupil selected by the school or student body organization to directly assist in the conduct of the athletic event, including activities incidental thereto, but only while such members are being transported by or under the sponsorship or arrangements of the educational institution or a student body organization thereof to or from a school or other place of instruction and the place at which the athletic event is being conducted.

Education Code Section 31751 [32220] specifically excludes student body members who are spectators, organized rooting sections, and other spectator students who are not actually participating in the conduct of the athletic event. It further excludes participants in a play day or field day activity occurring occasionally during a school year in which students of one or more particular grade levels from two or more schools of a school district participate in athletic contests. This wording seems to exclude elementary schools from the requirement of providing insurance unless they had regularly scheduled athletic events or had participation from schools of two or more districts in a common play day activity. However, this particular

[1] The corresponding section number in the new (reorganized) Education Code (effective April 30, 1977) is given, where applicable, in brackets after the old section number.

point should probably be reviewed by county counsel.

Coverage for Excursions and Field Trips

The Education Code (Education Code Section 1081.5 [35330]) provides that a school district may conduct a wide variety of field trips or excursions. Education Code Section 1082 [35331] states in part that:

> The governing board of any school district conducting excursions and field trips pursuant to this article shall provide, or make available, medical or hospital service, or both . . . for pupils of the district injured while participating in such excursions and field trips under the jurisdiction of, or sponsored or controlled by, the district or the authorities of any school of the district. The cost of the insurance or membership may be paid from the funds of the district, or by the insured pupil, his parent or guardian.

The school district should verify in its field trip procedures that the provisions of Education Code Section 1082 have been met.

Methods of Coverage

Several methods of providing coverage are available. One method is to buy or to make available individual policies on each participant in athletic events or activities. A second method is to buy blanket coverage for a complete student body. Whatever method is used, care should be taken that the policy meets the mandated requirements. The minimum medical benefits must be equivalent to the $3.50 conversion factor as applied to the unit values contained in the minimum fee schedule adopted by the Division of Industrial Accidents of the State of California, effective October 1, 1966 (Education Code Section 31752 [32221]). The $3.50 conversion factor is the legal minimum contained in the Education Code; the current conversion factor is much higher than that amount and is continually subject to change. Districts should inform themselves of the prevailing conversion factor when ordering this type of insurance.

Statutory Provisions

Section 31755 [32224] of the Education Code provides that any insurance may contain the following provisions:

1. School administrative authorities must certify as to whether an injured student is a student of the educational institution.
2. The injured student, or his or her parent or guardian, must notify the school authorities of his or her injury not later than 60 days from the date of injury.
3. Medical or hospital care or treatment must commence within 120 days from date of injury.
4. The period of time for which benefits shall be payable is limited to 52 weeks from the date the student receives his or her first medical or hospital care or treatment, and benefits shall be payable only for treatment given within the United States.
5. Death benefits shall be paid only if death is medically determined to be caused by the injury and occurs within 52 weeks of the first medical or hospital care or treatment.

Chapter VII
Vehicular Insurance

Accidents involving vehicles can result in large financial losses to a school district, and with some frequency these accidents give rise to liability claims. The governing board and the administrative staff of a school district are responsible for obtaining all necessary insurance coverage for the district. The mere meeting of statutory financial responsibility requirements is no assurance of adequate protection against losses. Although insurance against losses from the most serious hazards has been made mandatory, insurance against losses caused by material damage to vehicles used in the school program remains permissive. Failure to provide protection against such losses can be disastrous to the financial structure of a district.

Vehicular insurance may be purchased separately, in various combinations in several different policies, or in a single comprehensive policy. The district can obtain uniformity of coverage by including all vehicular insurance under one comprehensive policy. The sections that follow describe the various phases of vehicular insurance available, the protection afforded, and the relative cost of such coverage. The information presented should be helpful as a basis for developing an adequate insurance program.

Liability Insurance

Liability insurance is designed to provide a school district with protection against any liability claims resulting from accidents. The responsibility for establishing the amount of coverage needed rests with the school district. The current trend toward large awards in liability suits should be considered in establishing limits of coverage; limits should be the same as the district's general liability limits.

Bodily injury coverage protects the district against claims resulting from accidental injuries caused by vehicles operated by or at the direction of the district. Included are claims for costs of medical care, hospitalization, loss of employment, and claims for disability or death. Property damage coverage protects the district against claims resulting from damage or destruction of property caused by vehicles operated by or at the direction of the district. Claims for loss of the use of such property are also covered.

The cost of liability insurance varies according to the limits of coverage, local conditions, the past accident experience of the district, and the area in which the district is located.

Physical Damage Insurance

Several types of insurance coverage offer protection against material damage to or destruction of school-operated vehicles. Such coverage does not provide protection against damage to the property of others. Only fire insurance is required by law. Other coverage against material damage may be secured at the discretion of the governing board of the school district. The various types of physical damage coverage are described in the paragraphs that folllow.

Fire and Theft Coverage

Fire and theft coverage is generally written in a combined policy. Fire insurance, which is required by law, insures against loss from damage or destruction by fire, whatever the source. Commonly included in fire insurance coverage is protection against lightning, stranding, and sinking. Although theft insurance is not required by law, it may be purchased with the fire insurance policy at a rate not much more than the rate for fire coverage alone. A broader type of coverage is available through a comprehensive policy. The cost of fire and theft coverage is not excessive, especially when compared to the cost of coverage for liability, collision, and the more comprehensive material damage coverage.

Considerable savings are available to school districts through the use of a deductible form of

coverage for fire and theft. The district may assume the first $10, $50, $100, or any other selected amount of loss. When the claim for loss is made, the insurance carrier pays only for the amount of loss above the deductible amount. This plan of coverage avoids the necessity of filing claims for relatively trivial losses.

Comprehensive Material Damage Coverage

Comprehensive material damage is an all-risk coverage. All the hazards covered by the comprehensive policy are difficult to itemize; however, among them are fire, theft, windstorm, pilferage, earthquake, strike, flood, malicious mischief, submersion, riot, and falling aircraft. Because of the multitude of hazards covered, such a policy may be substantially more costly than fire and theft coverage alone. This form of protection may be written with a deductible clause in the same manner as fire and theft insurance. When there is a sufficiently large fleet, the premium charge may be averaged by the class of vehicles.

Collision Coverage

Collision insurance protects the district against direct and accidental damage to its vehicles if the damage is caused by collision of the vehicle with another object or by the upsetting of the vehicle. This coverage is provided in two forms, nondeductible and deductible. The deductible form differs from the nondeductible in that in the former the insurer pays for losses in excess of an amount agreed upon in the policy; in the latter the insurer pays for the entire loss. Nondeductible policies are usually more expensive.

Collision insurance, which is comparatively costly, varies according to the type, make, value, and age of the vehicle and the extent of coverage desired. The degree of risk involved varies greatly from district to district. A district may also establish a self-insured property loss fund for this purpose as provided in Education Code Section 15802.1 [39602].[1] (Refer to Chapter XIII on self-insurance.) Those districts carrying sufficient cash reserves may, in effect, desire to self-insure vehicles representing a relatively minor investment. The risk increases, however, for districts using large, transit-type busses, each of which may represent an investment of $40,000 or more.

Education Code Section 817 [35176] now provides for permissive coverage of the cost of replacing or repairing the property of an employee, including vehicles, when such property is damaged in the line of duty and without any fault on the part of the employee. School districts may desire to investigate the inclusion of such vehicular coverage in the vehicular policy, establishing reasonable limits for payment.

Towing Coverage

Towing expense coverage may be obtained for district operated vehicles. Towing and labor costs may be insured against whereby the district is reimbursed for towing charges or for labor costs of service performed at the place where the vehicle is disabled. This form of coverage, which is relatively inexpensive, is not usually recommended for a district that maintains its own shop and repair facilities and has its own towing equipment.

Medical Payments

An additional form of protection involves medical payments. Under this form of coverage, the carrier pays for medical expenses up to a stated amount for an injury occurring as a result of riding in, being about, or being struck by a motor vehicle. This is an accident form of coverage and does not replace, nor should it be confused with, liability coverage, which provides protection against claims resulting from negligence. The need for medical payments insurance is generally not applicable to employees because medical expense is provided under workers' compensation insurance for all injuries occurring in the performance of employment.

State Reimbursement for Insurance

Districts receiving state aid for transportation may seek reimbursement for a portion of the insurance costs attributable to the transporting of pupils to and from school.

Uninsured Motorist Coverage

Uninsured motorist coverage, which covers bodily injury only, is mandated for all automobile policies in California. However, the insured may waive such coverage through signed rejection endorsement. Education Code Section 1017 [35208] does not make uninsured motorist coverage mandatory. If a school district decides not to include uninsured motorist coverage in its automobile insurance policy, it should include adequate medical payments coverage.

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[1]The corresponding section number in the new (reorganized) Education Code (effective April 30, 1977) is given, where applicable, in brackets after the old section number.

Chapter VIII
Fidelity Bonds

A fidelity bond protects an employer against a loss caused by the dishonest or fraudulent acts of an employee. Technically, fidelity bonds are a form of suretyship rather than insurance. The distinction is a legal one arising from the fact that whereas insurance is a two-party agreement between the insured and the insurer, a surety bond is a three-party agreement among the principal, the obligee, and the surety. (The principal is the one whose acts are guaranteed—the officer or employee; the obligee is the one in whose favor the bond is issued—the district or employer; and the surety is the one who guarantees the principal to the obligee—the company.) Fidelity bonds may be considered as fidelity insurance, for fidelity bonds are usually underwritten by insurance underwriters and sold through insurance agents and brokers. Furthermore, the current trend in the packaging concept of coverage offered by insurance companies includes both insurance protection and surety protection under a single contract or insurance policy.

The Education Code provides that any employee who handles school district funds must be bonded and that any employee who handles school property may, at the discretion of the governing board of the district, be bonded (Education Code Section 17207 [41021].[1] In addition, a separate requirement demands that the officer in charge of the revolving fund be bonded in an amount at least twice that of the amount of the fund (Education Code Section 21302 [42801]. Education Code Section 21302 [42801] also gives the option of a faithful performance bond pursuant to this section or an honesty bond pursuant to Education Code Section 17207 [41021].

It is a credit to an individual to be bonded. Accepted business practice today calls for bonding all who handle funds or valuable property.

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Types of Fidelity Bonds

The several types of fidelity bonds are described as follows:

1. *Individual fidelity bond.* This bond covers any fraudulent or dishonest acts of the employee named in the bond.
2. *Name-schedule fidelity bond.* This bond covers any fraudulent or dishonest acts of specified employees designated by name in the bond to a limit of coverage separately stated for each such employee.
3. *Position-schedule fidelity bond.* This bond covers specified positions identified and enumerated in the bond. This type of bond differs from the name-schedule fidelity bond in that the position, not the individual, is insured. Changes in personnel do not interrupt bond coverage.
4. *Blanket-position fidelity bond.* This bond covers any fraudulent or dishonest acts by an employee up to the stated amount of the policy, which may be purchased in multiples of $2,500 to a total of $25,000 and in multiples of $5,000 to a total of $100,000.
5. *Commercial-blanket fidelity bond.* This bond covers all employees, but the aggregate coverage is limited to the stated amount of the policy. Such a policy may be purchased in an amount of not less than $10,000; there is no maximum limit.
6. *Faithful-performance fidelity bond.* This bond covers losses due to mistakes in judgment, such as malfeasance, misfeasance, and nonfeasance, having to do with the revolving cash fund.

Fidelity bond coverage is desirable for all employees of the district for several reasons. In most schools, employees are sometimes required to handle small sums of money. It is awkward to limit such handling to a few designated people. It is apparent as well that all school employees handle district property in one form or another. Actually,

the greatest exposure that many school districts have is to "minor pilferage" of supplies and equipment. If the district can afford a blanket bond, one should be carried, for the bond eliminates the hazard of guessing which employee may be dishonest. Either a blanket-position fidelity bond or a commercial blanket fidelity bond is acceptable, although usually the latter type is more economical for a small school district. All fidelity bonds may be written on a three-year basis. The three-year premium for the bond is usually discounted.

Theft Insurance and Fidelity Bonds

All fidelity bonds, money and securities, and burglary and robbery policies should be placed with the same company to prevent arguments between companies over responsibility for loss. The district's sole responsibility, then, is to establish that a loss did in fact occur. When property or funds disappear, the district often has difficulty in determining whether employees or outsiders are responsible. If such losses are insured against with different companies, the liability of the insurance company may not be established; in such cases the district may not obtain full recovery.

Recommended Practices

So that a school district will make good use of fidelity bonds, the following practices are recommended:

1. Cover all employees with a blanket-type fidelity bond. Either the blanket-position fidelity bond or the commercial blanket fidelity bond is acceptable.
2. If the district does not cover all employees with a blanket-type fidelity bond, it must cover those who handle funds. For this type of coverage, a position-schedule fidelity bond is usually most satisfactory.
3. When coverage pursuant to Education Code Section 17207 is not needed, cover the custodian of the revolving cash fund separately with a faithful-performance fidelity bond in an amount at least twice that of the size of the fund.
4. Since considerable variation occurs in the coverage provided by different companies, the surety association bond forms with appropriate endorsements should be established as minimum requirements.
5. If theft insurance is to be carried, it should be placed with the same company that provides surety bond coverage.
6. Since the fidelity bond market is competitive, premiums may be saved by obtaining quotations from different companies. It is necessary, however, if theft insurance is also to be carried, to get quotations for the combined program of theft coverage and fidelity bond coverage.
7. If bids are called for, personnel data must be provided. Employees should be listed by category of position.
8. Adequate records should be maintained to prove the amount of any fidelity loss.

Chapter IX
Other Types of Property Insurance

Various kinds of insurance besides those already discussed are written to offer other kinds of protection to the insured. Among these kinds of insurance are coverage against burglary, robbery, and theft. This chapter describes the coverage afforded by some of the most common types of insurances.

Open-Stock Burglary Insurance

Open-stock burglary insurance is sometimes used by school districts to protect against losses of materials and equipment, which are more commonly insured by the use of all-risk forms, such as office equipment floaters or merchandise block forms. These all-risk forms can also be used for coverage of audiovisual aids, office equipment, and the like.

The loss of merchandise, furniture, fixtures, and equipment is covered if the loss results from burglary; i.e., where forcible entry has been made and visible marks have been left upon the premises at the place of entry. Limitations concerning forcible entry may be removed through an endorsement covering theft, robbery, and larceny—coverage that usually costs an additional 75 percent in premiums. This policy does not under any circumstances cover the loss of money or securities. The main point about burglary insurance is that it is applicable after business hours.

Safe-Burglary Insurance

Safe-burglary insurance protects against the loss of property, including money and securities, kept in a locked vault. As with other forms of burglary insurance, claims are paid only when marks of entry are visible. These marks must be on the exterior portion of the safe or vault; otherwise, the insurer is not responsible. Although this type of protection is often used by school districts, its burglary provision represents a serious limitation. Many districts use broad-form money and securities insurance in place of a safe-burglary policy. Safe-burglary insurance is low in cost because of its limited protection.

Broad-Form Money and Securities Insurance

Broad-form money and securities insurance covers, within the premises of the insured, losses caused by destruction, disappearance, or wrongful extraction, except certain losses due to infidelity of employees. Losses of money and securities occurring while such money and securities are being conveyed by messenger should also be included. This type of coverage against loss of school district money is one of the best available.

All-Risk Insurance

All-risk insurance is a form of property floater insurance designed to cover all physical losses, including breakage and other forms of damage. School districts can justify such insurance only when the value of the items insured is relatively high and the items can be easily stolen or damaged. It can be a valuable type of coverage for equipment such as musical instruments, office machines, audiovisual equipment, and the like. Since all-risk insurance also covers loss by fire, it is necessary to avoid duplication between this coverage and fire policies. The items covered by all-risk insurance should therefore be eliminated from the inventory that lists contents for fire insurance purposes.

Mercantile-Robbery and Safe-Burglary Insurance

Mercantile-robbery and safe-burglary insurance provides the protection afforded by open-stock and safe-burglary insurance and protection against robbery. This type of policy is seldom recommended for school districts.

Office-Burglary and Robbery Insurance

Office-burglary and robbery insurance is designed especially for professional offices. The

coverage afforded is the same as that of mercantile-robbery and safe-burglary insurance except that it is extended to include theft and larceny. Money and securities are covered by burglary insurance only. This type of policy is not recommended for school districts.

Dishonesty, Disappearance, and Destruction Insurance

Comprehensive dishonesty, disappearance, and destruction insurance differs from money and securities coverage. The chief differences are that surety protection is added for losses due to infidelity of employees and that several additional coverages may be added at the option of the insured. This type of insurance is not ordinarily written for less than $10,000 fidelity coverage. Although its provisions fit a school district's needs very well, its high premium cost makes this insurance prohibitive for most districts. If the school district is writing all insurance in a package form, the district may include at better rates all insurance against dishonesty, disappearance, and destruction.

Recommended Practices

As a protection against loss of money, it is recommended that the following practices be adopted:

1. Money on hand should be kept to a minimum through regular deposits of cash collections. Deposits should be made daily; if necessary, they can be made through the use of night depositories.
2. If insurance protection of money is indicated, the broad-form money and securities policy should be considered.
3. If a safe-burglary policy is considered, its limited coverage should be clearly understood.
4. The limits of any policy should be determined by the maximum exposure to loss. If larger amounts of money are on hand for limited periods, the policy may be endorsed for the limited period of time.

As a protection against loss of property, the following considerations and practices are recommended:

1. Ordinary school furnishings need not be covered by insurance against theft.
2. A concentration in any school of equipment that represents relatively high values on items that can be easily stolen and sold should be covered by an open-stock burglary policy.
3. For valuable equipment that is moved about the district, such as microphones, projectors, or musical instruments, a property floater policy of an all-risk type should be considered. When such a policy is used, care should be exercised to eliminate overlapping coverage. Covered items should be removed from the inventory lists that determine the amount of fire insurance to be carried.

In the placing of business, the following practices are recommended:

1. All theft policies and fidelity bonds should be carried with the same company.
2. Since premium rates on these policies are competitive, school districts should request quotations from several companies or should secure bids.
3. The carrier should maintain a prompt and effective settlement service.

Boiler Insurance

The purpose of boiler insurance is to cover losses caused by the explosion of, or sudden and accidental damage to, pressure vessels, such as compressed air tanks and piping that contain steam or condensate. A major part of boiler insurance coverage is the periodic inspection of boilers (usually twice a year) provided by the insurance company to detect potentially hazardous defects and conditions and thereby prevent accidents. This inspection service is an important feature of boiler insurance. In California, boiler inspection is mandatory (California Administrative Code, Title 8). Since boiler inspection is provided under the boiler insurance policy, inspection fees are eliminated when insurance is used. Firebox explosion coverage is usually excluded from boiler insurance because such explosions are covered by the extended coverage provisions of the fire insurance policy. In considering coverage against damage to boiler machinery and fire, a district may wish to include a joint-loss agreement.

Types of Coverage

Boiler insurance may be written with either limited coverage or broad-form coverage. Limited coverage insures against the sudden and accidental tearing asunder of the object; broad-form coverage adds protection against the bulging, burning, or cracking of a cast-metal part. The amount of coverage or limit per accident should be determined by considering the greatest single exposure on a school site. This exposure may be possible damage to a building such as an auditorium,

gymnasium, or science building. The district architect may assist in determining value and possible exposure risk to each building.

The standard form of boiler insurance provides for repair or replacement based on the actual cash value of the property at the time of the accident. Actual cash value takes into consideration deduction for depreciation. However, an endorsement may be obtained that will pay for the cost of replacing the damaged property at replacement value. The boiler and machinery policy may include liability protection for damage to the property of others directly caused by an insured accident or occurrence.

Bodily Injury Liability

Boiler insurance also protects the school district against liability for bodily injury to any person involved in an accident caused by the operations of a boiler. This protection is a duplication of coverage provided under the comprehensive liability policy and is normally excluded from the boiler insurance policy by endorsement.

Rating Procedure

The premium for boiler insurance is based on the number and type of objects (boilers, pressure vessels, and the like) located within the various locations of the district. Before a school district can obtain a quotation from an insurance company for boiler insurance, a complete inventory of objects must be taken so that the correct rating may be applied to determine the premium rate. This inventory of objects may be obtained in one of the following ways:

1. Obtain the services of an insurance company that writes boiler insurance. This service normally is provided at no charge to the district.
2. Negotiate with an insurance company for coverage and request a complete listing of objects for each site.
3. Prepare a list of objects. Normally, this practice is beyond the capabilities of small districts because it requires the services of a maintenance man knowledgeable in all types of heating and pressure devices.

Recommended Practices

Boiler insurance, like all other types of insurance, may be placed in several ways, such as by written bid or quotation, negotiation, and direct placement. If a district elects to obtain written bids or quotations, proper specifications must be prepared so that all companies submit bids on the same coverage.

The following recommendations are made regarding boiler insurance:

1. Insure all high-pressure boilers (over 15 pounds maximum pressure).
2. Weigh the cost of boiler insurance for low-pressure boilers against inspection costs. It is usually advantageous to insure such equipment.
3. Use the broad-form type of policy subject to premium considerations.
4. Exclude coverage against liability or bodily injury and damage to property of others from the boiler policy if such coverage is included in the comprehensive liability policy.
5. Use replacement cost coverage rather than actual cash value coverage because of the rising trends in the cost of equipment.
6. Require thorough inspection service, and follow the recommendations of inspectors carefully.
7. Take advantage of competitive premium rates through bids or negotiations.

Glass-Breakage Insurance

The policy contract for glass-breakage insurance designates the location of the insured's property, and lists specifically the glass that is covered. Although the rates for such insurance are competitive, they are very high because of exposure. Glass-breakage insurance is not usually recommended for school districts.

Chapter X
The Package Policy

An effort to provide for all the insurance needs of a client in a single policy has brought about the most recent trend in the area of insurance coverage—the package policy. Large insurance companies have indicated a strong interest in providing package coverage for various public agencies, including school districts.

Currently available is a school package policy with five areas of protection: protection against physical damage to real, personal, and scheduled property; protection against liability for bodily injury and property damage (comprehensive); protection against loss from burglary and robbery; protection against fidelity loss; and protection against boiler and machinery damage. Each area of coverage may be modified or supplemented to fit the particular situation and operation of the district. Such an arrangement allows for a flexible and personalized protection program.

The Features of a Package Policy

An examination of some of the fundamental features of package insurance and of the advantages inherent in an all-inclusive policy discloses that (1) a package policy combines all, or as many as possible, of the essential coverages required by every policyholder; (2) it provides generally broader coverages than those available through individual policies written in the conventional manner; (3) it permits the addition of many optional coverages to tailor protection according to the needs of individual insureds; and (4) it does these things at a cost lower than that of individual policies.

Although no single insurance policy can cover all of a school district's needs, a package policy can, by including separate areas of coverage in a single policy wherever possible, offer several advantages to the district:

1. *District deals with only one insurance company.* Loss adjustment is immediately simplified because the district deals with only one adjuster instead of perhaps many. Disputes between participating companies are eliminated.
2. *District deals with only one agent or broker.* One agent charged with the responsibility for servicing the entire account can afford to devote more time and study to the individual needs of his or her client.
3. *Package insurance has only one expiration date.* Not only can the expiration date be selected to coincide with the fiscal year of the district, but the combining of many coverages into one policy with a common expiration date eliminates the possibility of loopholes in coverage resulting from oversight in renewing existing policies.
4. *Coverage tends to be broader and more flexible.* Most package policies provide new, simplified wording on essential coverages, as well as new extensions of coverage and new perils insured against.
5. *Many optional coverages are available.* A wide variety of options is available in addition to the usual basic contract. No two school districts are the same; therefore, insurance needs vary considerably with the location, size. and individual characteristics. The optional coverages allow the company to tailor protection as needed.
6. *Package insurance is generally lower in cost.* Similar protection obtained through a combination of individual policies usually costs more.
7. *Multiple coverage is sometimes more appealing to insurance companies.* In times when certain areas of coverage become difficult to obtain individually, insurance companies are more willing to write the less attractive risk if the other coverages are included.

Important Considerations

Although many types of coverage may be packaged into a single policy to cover most of the

district's insurance, the school package policy will not include some things. It will not include workers' compensation insurance, health insurance, life insurance, income protection insurance, and certain other highly specialized coverages.

Well-managed schools with good loss experience may find that a package program of insurance will result in a modest reduction in premium or no reduction at all. In times of difficult market conditions for certain risks, the package program may only be able to hold the line on higher premiums. Generally, however, the package policy produces a lesser premium than a combination of public and institutional property and standard liability insurance, assuming that no past losses have occurred. The good risk—the district that enjoys good management and proper maintenance of property and that takes a real interest in safety and loss prevention—will benefit from lower premiums than would be available through a combination of individual policies. On the other hand, the poor risk may have to pay higher premiums than other districts. Thus, the plan encourages loss prevention.

Good management of any insurance program requires constant review of loss experience. But a review of loss experience is impossible unless premium costs and losses for each type of protection are maintained separately, even though the coverage may be combined in a single policy to provide for economy of acquisition and administration. For these reasons charges should be allocated so that it is known what portion of the premium applies to each area of coverage, and complete records of loss experience should be maintained according to the type of coverage under which the loss is involved. With this information an administrator can determine what areas of coverage need adjustment in premium charges and what areas of loss experience require better security measures to prevent and control excessive losses. The school administrator can thereby keep the premium advantage derived through packaging of insurance coverages.

Recommended Practices

School districts may secure the advantages of a package insurance policy by following these recommended practices:

1. Examine the most recent programs of package insurance to make sure that the district's program is being developed along the lines currently offered.
2. Select the types of coverage consistent with the district's needs and characteristics.
3. Prepare specifications in sufficient detail for each type of coverage to ensure that the package will be as advantageous to the district in each particular form of coverage as a single policy would be. Incorporate into the specifications the broader coverage usually available in certain coverage forms when a package plan is used.
4. Require a breakdown of the premium cost of the total package to determine what premium charges need adjustment when compared with the premium charges for conventional coverage in that area.
5. Maintain complete and adequate records of loss experience. In this way adequate security measures can be taken to prevent and control excessive losses.
6. Insist upon a high level of service by insurance company representatives because the package policy simplifies the administration and servicing of the insurance program. The representatives should know all about the district from an insurance point of view and should be constantly aware of the district's needs for coverage. They should be diligent in their efforts to advise the administrator of the insurance program of all of the steps he or she can take to effect economies in the district's insurance program.

Chapter XI
Workers' Compensation Insurance

Under Division 4 of the Labor Code, a school district is made liable for medical and hospital expenses and partially liable for loss of income due to injuries sustained by employees in the course of their employment. All school district employees who are paid wages or salaries are protected by this provision. School districts may provide, for persons authorized by the board to perform volunteer services for the district, insurance coverage that is the same as or comparable to that provided for its regular employees (Labor Code Section 3364.5). In addition, students in bonafide work experience or occupational training programs are covered under the provisions of Labor Code Section 3368 and Education Code Section 5992 [51769]).[1]

School districts may insure their workers' compensation liability with the State Compensation Insurance Fund and not with any other insurer. Further, Labor Code Section 3700 requires insurance or supervised self-insurance of "... every employer except the state and all political subdivisions or institutions thereof." Thus, insurance is permitted in the State Fund but not required. Therefore, the choices school districts have are as follows:

1. Insure through the State Fund with an individual policy.
2. Be included in a State Fund policy with other school districts in the county through the office of the county superintendent of schools.
3. Self-insure (referred to as permissible uninsurance) either as an individual district or within a joint powers group.

Basic Premium Rates

The rating structure for workers' compensation insurance is based upon minimum rate legislation. Insurance Code Section 11732 authorizes the establishment of a uniform system of classification and rates. The classification and rating committee of the California Inspection Rating Bureau annually reviews the California accident and payroll data assignable to each of approximately 500 classifications to determine what base rate will be necessary to assure the payment of anticipated claims and of the cost involved in administering the program. For school districts all employees are included under a single classification. The premium for compensation insurance is based upon an established rate per each $100 of earned salary paid employees. Initial premiums are charged on the basis of the estimated payroll of each school district. At the close of the school year, an audit is made by the State Compensation Insurance Fund, which renders a final adjusted billing to the school district.

In all school districts developing a premium of $4,300 over a three-year period, the basic rate for employees in each class is subject to modification, which may either increase or decrease the basic compensation insurance premium the district must pay. This experience modification is calculated by using a complicated actuarial formula that compares the district's loss record with the experience of the statewide average employer during the same period. It is important for every district to recognize that lower than average accident experience by employees results in direct savings in compensation insurance cost.

Payment of Dividends

The State Compensation Insurance Fund returns to its policyholder, after full provision for benefits and expenses, all surplus premiums. The amount of surplus premium that is returned as a dividend depends upon the claims statewide and upon the individual policyholder. Every school district has some control over its compensation insurance costs, for the net cost to the district will depend in some degree upon the district's accident record.

[1]The corresponding section number in the new (reorganized) Education Code (effective April 30, 1977) is given, where applicable, in brackets after the old section number.

Employee Benefits

Workers' compensation insurance provides the following benefits to covered employees:

1. *Payment of expenses for treatment of an industrial injury or illness.* This payment includes doctor, hospital, and medical expenses and incidental expenses, such as travel to and from the hospital, therapy center, or doctor's office.
2. *Partial payment of compensation for time lost because of an injury sustained while on the job.* Employees currently are compensated beginning on the fourth day or on the first day if hospitalized. When absence continues longer than 21 days, compensation for the first three days is also paid.
3. *Payment of compensation for permanent injury sustained while on the job.* The amount of the permanent disability rating is determined by the Workers' Compensation Appeals Board and is expressed as a percent of disability.
4. *Payment of a death benefit to the family of an employee or other beneficiary.* This payment is made only when an on-the-job injury results in death.

Recommended Practices

As a general guide to the handling of the district's compensation insurance program, the following practices are recommended:

1. Make one school official responsible for the employee safety program and for compensation insurance matters connected with employee accidents.
2. Advise each administrator and principal of reporting procedures so that all accidents may be reported promptly. The Labor Code requires immediate reporting of all industrial injuries.
3. Advise the State Compensation Insurance Fund as soon as an employee who has been absent because of injury returns to work.
4. Advise all employees of the coverage to which they are entitled.
5. Develop a comprehensive program of accident prevention on a continuous basis. Passage of the California Occupational Safety and Health Act in 1973 imposed new safety responsibilities on employers. Representatives of the State Compensation Insurance Fund and the Division of Industrial Safety are available to advise and assist school districts regarding safety programs.
6. Notify the Division of Industrial Safety and the State Compensation Insurance Fund immediately by telephone or telegraph in every case involving a serious injury, illness, or death of an employee. Serious injury or illness is defined as any injury or illness occurring in connection with any employment which requires inpatient hospitalization for a period in excess of 24 hours or in which an employee suffers loss of any member of his body or any serious degree of permanent disfigurement.

Chapter XII
Group Employee Benefits

School districts throughout California offer a great variety of fringe benefits to employees and their dependents. The benefits include medical and dental care disability insurance, life insurance, vision care, prescription drugs, and tax sheltered annuities. California Government Code sections 53205 and 53205.1 permit school districts to furnish such benefits to their employees and their dependents. The increasing variety of coverages and the numerous alternatives available make it imperative that those persons responsible for making decisions regarding these plans be well informed. Those fringe benefits that are not mandated by law are becoming an increasing portion of the district's annual budget. Descriptions of these various coverages and alternatives within each are described in this chapter.

Group Hospital and Medical Insurance

Group hospital and medical insurance coverage is provided by service organizations, indemnity carriers, and health maintenance organizations. The rates for this type of insurance coverage within the same company will vary throughout the state because of differences in medical costs. Therefore, it is difficult for a district to compare costs with neighboring districts unless it knows the exact plan of a district of comparable size.

The service carriers provide basic benefits and offer major medical (or extended care) for all participants. These plans are written on a "pool" basis and are based upon the experience of each school district. Indemnity carriers rate districts on their individual experience.

Both service companies and indemnity carriers have made arrangements in various counties, through the county medical associations, to establish a foundation to police and maintain quality medical services within their areas. Predetermined fees are generally charged for services rendered. Claims are paid through the local foundations that are reimbursed by the indemnity or service carrier.

Public entities are not required to participate in health maintenance organizations because they are not subject to federal wage and hour laws. However, some school districts are now offering enrollment in health maintenance organizations to their employees. Experience has indicated that in areas where well-established health maintenance organizations have been in existence for some years, approximately 50 percent of the employees and/or dependents participate in the program.

Dental Insurance

Many of California's school districts currently have dental insurance programs for employees and dependents. Three types of plans are generally found throughout school districts: (1) incentive care plans; (2) comprehensive plans; and (3) scheduled plans.

Incentive Care Plan

A typical incentive care plan provides a $1,000 annual maximum benefit, pays a progressively larger percentage of the dental bill on the basis of the number of years in membership (70-80-90-100 percent), and provides full benefits if the subscriber goes to a member dentist. If the subscriber does not elect to go to a member dentist, he or she is then paid in accordance with a benefit schedule. A typical plan may pay a percentage of the usual and customary fees of the dentist. The plan usually provides for payment of 50 percent for prosthetics, but this payment does not increase as does the portion providing for general dentistry care.

Comprehensive Plans

Comprehensive dental programs provide for payment of a set percentage of the dentist's usual, reasonable, and customary charges being paid through the contract year. A typical program would provide for an annual maximum benefit of $1,500 per person, with no deductible or perhaps a $25 deductible. General dentistry charges are paid

at the rate of either 70, 80, or 90 percent. Many districts, as a cost cutting device, elect a program paying 70 percent and negotiate in future years for an increase to either 80 or 90 percent. Prosthetics are generally paid for at a constant rate of 50 percent.

Scheduled Plans

Scheduled plans generally provide a "starter" program for districts because of low costs. These plans offer from $1,000 to $1,500 annual benefits, but the payment of general dentistry and prosthetics are based upon a fee schedule similar to that found in a surgical schedule. The schedule indicates the maximum amount paid using a schedule providing 100 percent of benefits. For a plan providing 125 percent, the schedule was increased by 25 percent.

Self-Insured/Administrative Service Only Plans

Because of the great concern of many districts over the rising cost of medical insurance for employees and their dependents, districts have been exploring the possibility of partially self-insuring or fully self-insuring the medical and other district-paid plans. This exploration follows the success of some districts in self-insuring or partially self-insuring their workers' compensation programs.

Under a partially self-insured program, the district self-insures the first $1,000 (or more) of benefits and then insures through various carriers, the balance of the losses, if any. The self-insured program has the advantage of offering potential savings if loss experience is favorable.

Many districts have been exploring the possibility of using administrative services only of the insurance company. For districts with poor or bad loss experience, such a plan would probably not result in considerable savings. However, for a district with a better than average loss experience, the use of these services would benefit the district by (1) eliminating the state premium tax; (2) reducing the administrative expense; and (3) providing interest on reserves. Under an administrative services only plan, any program that is negotiated with employees will be fully self-insured by the district, subject to any stop-loss coverage. Individual and aggregate stop-loss coverage will provide the safety needed in the event losses exceed the total amount of budgeted premium.

The self-insured/administrative services only approach to providing benefits is not necessarily recommended for all school districts. However, if a district does explore this avenue of providing benefits, it is strongly recommended that the services of a qualified employee benefits adviser be utilized.

District-Paid Programs

District employees have been interested in district-paid programs because:

1. A definite tax advantage is provided to the employee by having the district pay the premiums. The employee does not have to pay for various association plans out of his or her net income.
2. Changes in the State Teachers' Retirement System (STRS) death benefits resulted in considerable loss of death benefits to certificated employees. Prior to STRS changes, the beneficiary of a certificated employee could expect to receive a death benefit equal to six months of salary. Following the changes in mid-1972, the death benefit was changed to a lump sum of $2,000.
3. Association plans began to lower the amount of death benefits as a result of adverse loss experience.
4. The average age of school district employees gradually increased as fewer employees entered the work force and the a.d.a. began to fall off.

The four types of coverage provided most often under district-paid programs are as follows:

1. *Decreasing term insurance.* For a level amount of premium payments, the insurance company provides a decreasing scale of benefits based upon the age of employees. Younger employees receive larger amounts of insurance than do older employees.
2. *Level insurance.* For a given premium, everyone in the district receives the same amount of death benefits.
3. *Accidental death and dismemberment insurance.* For a relatively small premium, accidental death and dismemberment benefits can be added to both decreasing term and level term plans. It provides for additional payments to the beneficiary if the insured's death results from an accidental injury. Benefits are paid to the insured for accidental dismemberment. Large amounts of this type of benefit are also available on a voluntary basis through payroll deduction.
4. *Travel accident insurance.* Prior to 1973 the Government Code permitted school districts

to purchase travel accident insurance covering employees and board members involved in air travel only on school business. SB 663 changed the Government Code in 1973, permitting a district to provide travel accident coverage for its employees on a comprehensive basis over a period of 24-hours.

Long-Term Disability Insurance (Income Protection)

At first, certificated and classified groups provided voluntary income protection programs through association membership. However, these programs did not meet the needs of nonmembers, including administrators and those employees who did not qualify for STRS or PERS coverage. Beginning in early 1970, school districts began providing such protection for all employees. These plans were "integrated" with other benefits received by employees as a result of their employment by a California school district. The plans included extended sick leave benefits, workers' compensation, PERS or STRS payments, and Social Security benefits.

Programs currently written for employees of school districts generally provide that STRS eligible employees will receive benefits for a one-year period, while non-STRS eligible employees would receive benefits to the age of sixty-five. The programs provide employees with 66⅔ percent of their salary in addition to the benefits previously mentioned.

Vision Care

Vision care plans now rank high on employee benefit lists. A typical plan provides for examination, lenses, and frames. In some cases, plans have been written to stipulate an amount the employee must pay for vision care before he or she can collect benefits.

Vision care plans may be written as riders to life insurance or dental programs. This is the least expensive way of providing this benefit because much of the administrative cost is absorbed by the dental and life insurance portions of the program.

Prescription Drug Plans

Relatively few districts in California provide separate benefits for prescription drug plans. The reason for this is that prescription drugs are covered under the extended benefits section of medical plans, with 80 percent of their costs (after satisfying the annual deductible) being paid by the insurance carrier. This plan does not provide coverage for catastrophic illness but does relieve employees and their dependents of certain prescription drug bills.

Group Legal Expense Insurance

A number of "prepaid legal services" plans are available. Benefits are designed to provide the full range of legal services that have been identified as those ordinary and usual legal expenses incurred by wage earners in their personal nonbusiness affairs. Under the group concept, the cost of this protection for individual group members is readily affordable. Methods for obtaining lawyers and schedule of benefits vary from plan to plan.

Tax-Sheltered Annuities

TSA has been adopted as the acronymn for the "tax-sheltered annuity," an investment that allows public school employees to defer payment of the income tax on part of their salary until retirement or withdrawal from the tax-sheltered account.

The 1954 Internal Revenue Code, under sections 403(b) and 501(c) (3), provides that certain tax-exempt organizations, including educational, may purchase for employee annuities that do not become taxable income until the employee retires. There was some question as to whether this type of program was available to public school employees under the original sections. However, the 1961 amendments to the Internal Revenue Code makes these sections applicable to employees of the public schools.

After the amendment of the federal statutes, questions still remained as to the effects of TSA under California law. During the 1963 legislative session, the California tax laws were amended to allow the same treatment for California income tax purposes as did the federal laws. In addition, the laws pertaining to the State Teachers' Retirement System and to the State Employees' Retirement System were clarified concerning the effects of TSA on school employees' salaries.

The tax-sheltered annuity program does not constitute either tax forgiveness or tax evasion. The tax deferment aspects of TSA can produce considerable savings for the employee because the amounts paid into such an annuity program are not subject to income tax during the period of higher earnings but become taxable after retirement when earnings may be lower. In addition to such probable tax savings, amounts paid into such a program should increase in value through dividends and interest.

Basically two methods can be used for setting up such a program and designating a funding agency: (1) a commercial insurance carrier; and (2) the State Teachers' Retirement System.

The following steps may be used as a guide in evaluating and establishing a TSA program in a school district:

1. Set up a study committee to evaluate and disseminate materials and to report its findings to the administration for review.
2. Refer the matter to the governing board with administrative recommendation.
3. Request the governing board to adopt a resolution that permits district employees to avail themselves of the program.
4. Have interested school district employees authorize the governing board to purchase an annuity in their behalf. This purchase is accomplished through the execution of a contract amendment. It should be noted, for the purposes of this discussion, that a contract would be reduced by the amount authorized to be paid into an annuity.
5. Have payroll deductions, in accordance with terms and stipulations of contract amendments, be withheld by the school district and forwarded to the annuity carrier.

Cafeteria or Modified Cafeteria Plans

Under the cafeteria plan, the dollar amount allotment per employee is stipulated in the plan. The employee has an opportunity to select the benefits that meet his or her particular needs.

In the "full" cafeteria plan (becoming less and less popular), all benefits are truly optional, with the employee having access to the total district contribution and having the right to select any coverage offered on the benefit selection sheet. A disadvantage to a full cafeteria plan is that it is impossible to offer coverages that require 100 percent participation, such as dental coverage.

Under the modified cafeteria approach, certain benefits require automatic participation. Such participation is required if dental, life, income protection, vision, or prescription drug programs are offered by the district. An example of a modified cafeteria plan is given in the following paragraph.

The district makes $800 available annually to each eligible and qualified employee. From this $800 would be subtracted the cost of the dental program ($100), the cost of a life insurance program ($15), or a total of $115 would be subtracted from the $800, leaving a balance of $685 for the employee's use on any of the other available programs, such as medical, voluntary life insurance, tax sheltered annuities, and so forth.

Bid or Negotiation Method

Two methods of selecting carriers, plans, and rates are the "bid" or "negotiation" method.

1. *Bid.* Through the bid method, detailed specifications are prepared by the employee benefit specialist and/or the district, with these specifications being forwarded to numerous insurance carriers. Scaled bids are received, and the low bidder is usually awarded the business if the specifications and other criteria are met. It has generally been found that it is extremely difficult to compare plans of numerous carriers even though detailed specifications are requested.
2. *Negotiate.* Many firms in the private sector as well as school districts have found it to their advantage to negotiate with one or two of the prime carriers involved in providing school district benefits. Because school district insurance is a specialty, it has been found that better plans with more favorable rates can sometimes be secured through negotiations rather than through the bid method.

Professional Help

The providing of fringe benefits has become complicated because of the numerous alternatives available covering the many areas of employee fringe benefits and the large contributions required to provide these benefits. Because of this, administrators and management teams should make use of the services of an employee benefit specialist either as a district staff member or as a consultant.

An employee benefit specialist may be of assistance in helping the management team analyze employee proposals and assist in making counter proposals. Once a benefit has been determined at the negotiating table, the employee benefit adviser can then shop and price the plan for the final decision of the management team.

Other services that can be offered by the employee benefit adviser are:

1. Help set the proper priority of employee benefits.
2. Provide alternative plans.
3. Help communicate benefits to employees after a plan is selected.
4. Help enroll and conduct meetings.
5. Make certain that adopted plans meet specifications.

6. Work with the provider at renewal time to determine proper rate increases, if any.
7. Continually provide the districts with updated information as it affects fringe benefits.

Employer-Employee Negotiations

Prior to the effective date of Government Code sections 3540–3549, fringe benefits normally were negotiated on the basis of the recommendations of an insurance committee. Insurance committees generally were formed in one of two ways:

1. The various employee organizations, along with the administration, appointed members to act as a fact finding committee composed of certificated and classified employees along with one or two members of an association of school administrators.
2. The district superintendent would appoint members of the certificated and classified groups to act as his or her committee to make recommendations to him or her for negotiations with the school district governing board.

The passage of collective bargaining legislation made it extremely important for districts to become aware of the impact of the cost of fringe benefits on the district budget and of the importance that district employees place on these benefits.

Two considerations of particular importance to the management team negotiators are:

1. The agreement with the union should not specify insurance carriers but rather define a plan that would be provided for the employees and/or dependents. This then gives school administrators the prerogative of selecting a carrier for the district which may result in conserving considerable district dollars for other needs.
2. Some legal opinion allows for a continuation of the old insurance committee. The purpose of this committee would be to give input to the district negotiators or staff about employee fringe benefit requests and at the same time permit the insurance committee to explore alternatives and plans, and to carry this information back to the membership and to the union representatives. Such an information exchange would probably not be considered an unfair labor practice.

It is important that the best possible program for both cost and coverage of the district's employees be secured following the prerequisites set forth below:

1. The district should be in complete control of the program. Since it will have to sign contracts with insurance providers, the district should be the one to determine the carriers and costs.
2. Selected programs should not permit discrimination against employee association members or nonmembers.
3. Consideration should be given to requiring that the district receive loss experience data from carriers. This information is vital in determining whether the cost is too high for the benefit received. Maintaining such information in the district's files makes it possible for the district to "shop" its plan when the need arises. Many companies will not quote unless this loss experience is available.

Recommended Practices

The following procedures are suggested as guides for determining, selecting, and handling group employee benefits:

1. A study committee should be established to determine what benefits are needed by the district personnel.
2. The study committee should evaluate the insurance companies on the basis of their financial standing, experience in the field, and local claims handling and paying services.
3. When a particular coverage has been chosen for study, an insurance adviser, well-qualified broker, or agent should be consulted. The adviser should be particularly helpful in explaining the latest underwriting practices, which change constantly.
4. To avoid problems of evaluation, the specifications should describe exactly the coverage desired:
   a. The type of policy desired
   b. The name of the insured
   c. The kinds of coverage required
   d. The specific policy conditions
   e. The policy period (dates)
   f. The premium period
   g. Provisions for continuing protection to persons who retire from the district
5. In general, school districts will get satisfactory results more often through negotiation rather than through formal bidding.
6. District quotation forms should be used to ensure comparability of rates.
7. If formal bidding is desired, maximum publicity should be given to the bid proposal, and

ample time should be allowed for bidders to respond.

8. If the basis of negotiation is desired, all eligible agents or brokers indicating an interest should be given ample opportunity to submit quotations and to present all pertinent data regarding their services.
9. The financial stability, service, and reliability of the underwriting company and of the broker or agent should be given particular consideration.

Chapter XIII
Self-Insurance

In recent years dramatic changes have taken place in the area of risk management. Some school districts have found that their insurance premiums have doubled or tripled; while in other districts, certain types of risk coverage have increased to the point where the high cost has forced them to assume most or all of their own risk.

Several factors have caused the increases in premiums. Insurance company premium rates are based on the loss experience of claims paid and the return the company receives from invested premiums. In recent years, insurance companies have experienced a greater than anticipated loss from the number of claims paid; while at the same time, many of their investment portfolios have deteriorated. The result has been both an increase in premiums and a decrease in money available for insurance companies to provide excess coverage. Insurance companies have also become more selective in areas of coverage. The increases in premiums, plus the difficulty of securing coverage in some high risk areas, have caused school districts to seek alternative means of providing protection, including self-insurance.

Theory of Self-Insurance

The theory of self-insurance is to retain that coverage for losses that the organization is financially capable of absorbing. These losses are primarily those that may reasonably be anticipated, that are recurring in nature, and that are limited in severity. Such losses may be covered by a budgeted account to expense the losses in the normal course of business or by a reserve fund from which payment may be made for the loss.

To maintain a satisfactory loss ratio with an insurance carrier, a district should not experience losses in excess of 60 percent of the premiums paid. The balance of the premium is used by the insurance company for administrative expense, profit, and the insuring against catastrophic loss. Where losses are reasonably predictable and are limited, a district is well-advised to expense or self-insure against such losses.

The following advantages may be attributed to self-insurance:

1. Savings in net cost by eliminating the insurance companies' administrative cost and profit
2. Use of working capital and earnings on the reserve fund
3. Better control of losses
4. Greater incentive for loss prevention and loss control

Disadvantages associated with self-insurance are the following:

1. Need to establish a reserve fund
2. Not being able to determine maximum losses that may be sustained
3. More complicated handling of claims
4. The possibility of extensive self-insurance programs further diluting availability of necessary insurance coverage and excess protection from insurance companies

Application of Self-Insurance[4]

The application of self-insurance in a school district may vary from a minimal deductible to a fully self-insured program coverage. However, a district must have the financial capability to cover losses or establish necessary reserves for whatever insurance program that is instituted. Self-insurance has three primary applications:

1. Self-insurance at varying levels within a school district, where the district establishes its own limitations and provides the required reserve funds
2. An informal agreement with other districts wherein each district retains its own level of self-insurance, with losses above this level being insured through a group purchase. Under this arrangement, each district is liable for its own losses and does not contribute to the losses of any other district.

[4]See pages 5, 6, and 18 for legal provisions for self-insuring.

3. A formal joint powers agreement between two or more districts, wherein funds of the participating districts are placed in a single reserve account and are available for the payment of losses. Under this arrangement, the district's contribution may be limited to its own losses, or all losses may be paid from a joint reserve account, which may result in one district helping to pay losses for another district.

A school district is well-advised to purchase stop-loss coverage, whereby the insurance company pays for any loss in excess of a set amount. From a practical standpoint, however, such coverage is becoming difficult to purchase. If a district that self-insures does not or cannot purchase stop-loss insurance, the district is faced with an unknown amount of obligation in the case of a loss; and, therefore, the amount of money needed in a reserve fund cannot be predicted. This is probably the greatest disadvantage to self-insurance programs.

Property Coverage

For many years property coverage has been the subject of partial self-insurance through the application of deductible amounts. The deductible amounts may be increased in accordance with the ability of the district to establish the necessary reserves to absorb a loss or a series of losses. Without a stop-loss provision, a district may be in financial difficulty if it experiences serious losses beyond the amount established in a reserve fund.

Crime Coverage

A district may provide for crime coverage by purchasing insurance with varying amounts of deductible, or it may assume the total risk by self-insuring. The determination of whether to self-insure or whether to purchase deductible insurance should be based on the amount of adequate security provided for the district's physical property and also on whether equipment is concentrated within the district. If a district chooses to purchase burglary and robbery insurance, policies may be purchased with deductible amounts and should be purchased from the same company that carries the district's fidelity bonds. (See page 28.)

Liability Insurance

Education Code Section 1251 [35214] permits any school district to self-insure against liability of the district, its officers, and its employees. However, a district should not self-insure unless it can financially assume a substantial amount of risk. The purchase of insurance policies that have small deductibles will not result in substantial premium savings, and in addition problems in claims investigation and adjusting are created. If a district partially self-insures its liability exposure, a clearly defined agreement is essential between the district and the insurance carrier concerning the adjustment of claims. Without such an agreement, the insurance carrier may decline to pay a judgment against a district if the district, on its own decision, has refused to settle for a reasonable amount and if a subsequent higher judgment on the same case is awarded by the court. Thus, because of the third party involvement in liability claims, this type of coverage is not conducive to the use of relatively small deductible amounts.

Most school districts do not have the financial capability to assume all of their liability risk; therefore, self-insurance should be considered only if the district can assume a basic risk level, up to $500,000 for example, and can then purchase excess coverage beyond this amount. The question of how much is enough excess coverage remains unanswered. This question must be determined by each local governing board.

Workers' Compensation Coverage

The most interest in self-insurance is currently being shown in the workers' compensation program. This program is popular among districts because short-term cash flow advantages can be realized. Also, experience has shown that districts will have a better loss control and loss prevention when they are directly involved in the management of the program.

Districts, except the very largest ones, must join in a joint powers agreement to realize savings on workers' compensation. Self-insured groups establish a fund to cover anticipated claims and then purchase reinsurance to cover the catastrophic losses. If an individual district purchases reinsurance, the minimum cost may be more than districts are currently paying for workers' compensation insurance. Therefore, the districts must form joint powers groups to share the cost of reinsurance. Normally, a school district or joint powers group will contract with a claims adjustment firm for the administration of the workers' compensation program.

While self-insurance for workers' compensation offers advantages, districts should be aware of potential pitfalls. For example, school districts may save money on the short term but must

provide adequate financial reserves to meet the *tail of losses* (the length of time between the date of occurrence of a loss and final settlement of that loss). This tail of losses may extend over many years. It may be difficult for a district or even a joint powers group to establish a large enough fund if it has a poor loss record.

Employee Benefits

Some school districts have indicated a modest savings through self-insurance in employee benefit packages. Such a program normally requires the use of contract adjustors and should include the purchase of stop-loss coverage to insure the maximum liability of the district. The success of such programs is dependent upon the contract adjustment facility used and the ability of the district to control utilization of the benefits provided.

Long-Term Disability

Long-term disability coverage is not recommended for self-insurance by school districts because payment of claims extends over a long period and because establishing adequate reserves is extremely difficult. This coverage is best handled through normal insurance channels.

Summary

In any program of self-insurance, the district must determine its financial ability to meet future obligations, stop-loss coverage must be purchased if available, and adequate reserves must be established, including an amount to cover incurred but not reported losses. The reserves should be set up under provisions of Education Code Section 15802.1 [39602] as restricted reserves available only for payment of claims and expenses related to the self-insurance program to prevent the fund from being used for any other purpose. Savings are available through self-insurance, but such savings may not justify the added exposure to loss that may be assumed by the district. In all cases, a coordinated program should be developed wherein the district assumes liability for those losses it is capable of paying and purchases insurance to cover losses above this level.

Appendix A
Suggested Inventory Procedures

The following suggestions are made especially for those districts that have not developed regular inventory and property-record procedures. Essentially, they represent an attempt to lay out minimal procedures for establishing and maintaining an inventory system that will permit a school district to do the following:

1. To determine the insurable value of contents to make possible an exact estimate of insurance needed
2. To supplement basic records with sufficient data to make possible the full recovery of any losses
3. To meet the requirements of Education Code Section 1004.5 [35168][1]

The following steps should be taken in setting up and operating an inventory system:

1. Develop an inventory classification list that includes an alphabetical listing of standard items used in the school district.
2. Make use of the regular staff: Use teachers to inventory classrooms, custodians to inventory supply rooms, and clerical staff to inventory offices.
3. Develop inventory forms, accompanied with appropriate instructions, to simplify the job.
4. Take the inventory at a regularly scheduled time. Ordinarily, the end of the school year is most satisfactory.
5. Take the inventory room by room, building by building. A plat identifying the rooms at each school by their numbers is a helpful device. Room inventories should be consolidated and summarized by school. This responsibility may be delegated to individual principals or may be assumed by the business office.
6. Price the inventory for each school by assigning unit prices to each type of item, computing the cost of the units of each type of item, and then computing the cost of all types of items. The current market cost of replacement for new items similar in kind should be used. Cost data may be secured from current purchasing records, from manufacturers' catalogs, and from vendors.
7. Adjust replacement cost for depreciation to determine insurable value.

[1]The corresponding section number in the new (reorganized) Education Code (effective April 30, 1977) is given, where applicable, in brackets after the old section number.

Appendix B

Sample Inventory Form
Elementary Classroom Inventory

General Instructions

General administrative instructions should be given here, including such items as who is responsible for taking inventory and when it is to be completed.

Specific Instructions

Specific instructions should include all items of furniture and "permanent" equipment that are removable; i.e., those items that are neither integral parts of a building nor permanent attachments to it. Items should not be included that are permanently attached to the walk, floor, or ceiling; built-ins; and small items that are easily lost, such as scissors, staplers, and the like.

It should be understood that the items to be enumerated in the inventory form will vary from school district to school district. The example presented here is a general form that has proved effective. A unified school district might need four different inventory forms—one for elementary classrooms, one for high school classrooms, one for junior college classrooms, and a general form for use in areas such as laboratories, offices, and gymnasiums. Each school district should develop forms to meet its own needs. A sample inventory form is shown below:

SAMPLE INVENTORY FORM

ELEMENTARY CLASSROOM INVENTORY

SCHOOL ..... ENTERED BY .....

ROOM NUMBER ..... DATE .....

Description	Quantity	Cost per unit	Total cost
CHAIRS (by distance from seat front to floor)			
17"—18" wood			
17"—18" metal			
15"—wood			
15"—metal			
13"—wood			
13"—metal			
11"—wood			
11"—metal			
Other (describe)			
DESKS, STUDENT			
Universal, size A (large)			
Universal, size B (medium)			
Universal, size C (small)			
Table-desk (single)			

SAMPLE INVENTORY FORM—Continued

Description	Quantity	Cost per unit	Total cost
Table-desk (double)			
Table arm desk-chair			
Other (describe)			
DESKS, TEACHER			
Single, pedestal, wood			
Single, pedestal, metal			
Double, pedestal, wood			
Other (describe)			
FILING CABINETS			
2-drawer, metal			
3-drawer, metal			
4-drawer, metal			
Other (describe)			
U.S. FLAGS			
Size			
Size			
CALIFORNIA FLAGS			
Size			
Size			
OTHER FLAGS (DESCRIBE)			
FLAG STANDS, PEDESTAL			
GLOBES			
Size			
Size			
MAPS, WALL (list separately)			

NOTE: (There has been no attempt to make the above list complete.)

INCLUDE ITEMS NOT LISTED

Description	Quantity	Cost per unit	Total cost

Appendix C

Form for Listing School District Insurance Policies

.....SCHOOL DISTRICT INSURANCE RECORD

Type	Company	Number of policy	Name of broker or agent	Expiration date	Term of policy	Premium	Amount of coverage	Description of coverage

Appendix D

Tax-Sheltered Annuities Agreement (With Hold-Harmless Agreement Clause)

WHEREAS, the Board of Education of the _____ School District of _____ County, California, wishes to make available to its employees the provisions of Public Law 87-370, United States Internal Revenue Code Section 403(b), and California Revenue and Taxation Code Section 17512; and

WHEREAS, the company designated below has offered to provide tax-sheltered annunties complying with federal and state law for eligible employees of the _____ Board of Education wishing to have such annuities purchased for them by the board of education; therefore,

IT IS AGREED AS FOLLOWS:

1. _____, hereinafter called the company, shall provide for purchase by the board of education for its employees only annuities without a life insurance element complying with the provisions of Public Law 87-370, Section 403(b) of the United States Internal Revenue Code and Section 17512 of the California Revenue and Taxation Code and any other pertinent present or future federal or state law. Such annuities shall be available for purchase by the board of education for any legally eligible employee electing to participate.
2. The company, together with its agents and representatives, shall comply with all pertinent written directives regarding the solicitation of employees of the board of education and the purchase of tax-sheltered annuities.
3. The company shall hold harmless and indemnify the board of education, the school districts, their officers and employees, for every claim and demand, including those based upon negligence of the board of education, the districts, their officers and employees, which may be made by reason of the purchase of annuities by the board of education.
4. The company, at its own cost, expense, and risk, shall defend any legal proceedings that may be brought against the board of education, the school districts, their officers and employees, on any claim or demand and shall satisfy any judgment that may be rendered against any of them. The board of education shall notify the company on the receipt of any such claim or demand.

_____ _____ _____

Date Authorized officer of the company Title

_____

State of California)
)SS
County of _____)

Acknowledgment

On _____, the person whose name is signed above for the company and who is known to me to be the individual and officer or partner as stated above who signed this instrument, personally appeared before and acknowledged to me that he had executed it, and that the corporation or partnership named above had executed it in accordance with the bylaws or resolution of the board of directors.

(Seal) _____

_____

Notary public for said county and state

Glossary

Accident insurance–Insurance designed to cover accidental injury on an occurance basis without reference to legal liability. The agreement may in some predetermined measure compensate an injured individual for the cost of medical care, for the loss of time from his or her job, for personal injuries, and the like.

Actual cash value–See Insurable value.

Additional insured–An endorsement or certificate wherein the carrier names another party as an additional insured under the contract. Provides direct coverage of the policy to the additional insured. Coverage should be indicated as primary over any other insurance to avoid participation in any other coverage.

Adjuster–A person (or organization) who settles claims covered under an insurance contract. A company or independent adjuster represents the carrier; a public adjuster represents the insured.

Agent, insurance–An official representative of an insurance company with limited power to act in behalf of the company. Since the insurer (company) does not usually deal directly with the insured (school district), negotiation is usually carried on through an agent who represents the insurer or through a broker who represents the insured.

Aggregate deductible–The total of all per loss deductibles that must be suffered by a policyholder in any one year on any one policy.

Aggregate stop-loss insurance–A form of insurance coverage that provides a limit on the amount of aggregate deductible that a policyholder may suffer in any one year. After the limit is reached, the aggregate stop-loss insurance assumes the responsibility to pay all subsequent deductible amounts.

Appraisal–An estimate of value. For insurance purposes, the appraisal usually represents the insurable value.

Average-clause–An agreement included in a policy by which the insured agrees to carry, for a reduced premium rate per $100 of insurance, insurance coverage in a definite amount stipulated as a percent of the insurable value of the property or properties involved. Under such an agreement, the insured may recover for a loss only in the proportion that the amount of insurance actually bears to the amount of insurance required by the average-clause agreement.

Basic rate–The rate applied to a whole class of policies on similar risks. This rate is subject to modification through charge or credit, depending on the particular characteristics of the risks (loss experience).

Binder–A memorandum from the insurance company confirming that coverage is in effect pending issuance of a formal policy.

Blanket coverage–A policy that covers two or more risks. In school fire insurance, blanket policies that cover both buildings and contents at several or all locations are commonly employed. Blanket fidelity bonds cover all employees.

Blanket position fidelity bond–A bond that provides recovery up to the face amount of the bond for each employee involved in a loss resulting from a dishonest act.

Broker, insurance–A representative of the district who assists in placing its insurance business and in carrying on other negotiations with insurance companies. Generally, the insurer (company) does not deal directly with the insured (school district) but acts through an agent who represents the insurer or a broker who represents the insured.

Broker of record–A broker named by the insured as his or her representative in establishing a rate (as an average rate) through a rating bureau. The broker is thereby established as the exclusive representative of the insured in negotiating with the insurance carrier.

Burglary–The criminal abstraction of property by any person or persons forcing entry into locked premises. Burglary insurance policies ordinarily cover such acts only when there remains upon the exterior of the premises visible signs of forcible entry by tools, explosion, electricity, gas, or chemicals. A blown safe is an example of evidence of burglary.

Certificate of insurance–Certificate issued by or on behalf of carrier verifying insurance coverage. Does not make coverage applicable to anyone else unless additional insured endorsement is included.

Coinsurance–That portion of a fire loss that must be assumed as a result of failure to carry the amount of insurance called for by the average clause; that portion of a payment under hospital-medical coverage assumed by the subscriber (frequently on an 80-20 basis).

Coinsurer–A provision in a policy that requires a policyholder to participate in a loss (or become a coinsurer). In fire insurance policies, the policyholder may become a

coinsurer if he or she fails to insure his or her property to a specified percentage of its actual cash value.

Commercial blanket fidelity bond–A bond that provides recovery for a dishonest act of an employee or employees. The total amount recovered is limited to the face amount of the bond.

Compensation insurance–Coverage under Division 4 of the Labor Code making all employers, including public agencies, responsible for medical, hospital, and partial wage losses that result from on-the-job injuries to employees. School districts must insure against such liability with the State Compensation Insurance Fund and not with any other insurer. The district may self-insure workers' compensation risk.

Comprehensive liability insurance–Liability insurance written to cover all legal liability exposure except that which is specifically excluded in the insurance agreement. This policy is usually recommended for school district use.

Concurrency–A situation wherein more than one policy covers the same risk and each of the policies contains identical insurance provisions in all respects except rate, term, and amount of insurance.

Consequential loss–A loss not directly caused by the peril insured against but resulting therefrom.

Contents–Ordinarily, all equipment and furnishings housed in a building but neither integral parts of the building nor permanent attachments to it.

Contract services–Independent claim adjustment or safety services used by a self-insurer on a "contract"basis.

Corridor–Out-of-pocket expenses paid by a subscriber after payment of basic benefits but prior to application of major-medical coverage.

"Cut through" endorsement–An endorsement to a policy that grants to a policyholder the right to enforce the terms of the policy directly against a reinsuring company in the event of insolvency of the insurer that issued the policy.

Deductible–The amount a policyholder must suffer as an agreed amount of loss. This amount must be lost first and "deducted" from the total of the damage to determine the amount the insurer must pay; thus, this amount is termed the deductible. (See also Per loss deductible, Aggregate deductible, and Aggregate stop-loss insurance.)

Depreciation–A measure of the extent to which an asset has been consumed. No property or asset is completely permanent or immutable. All assets are subject to gradual consumption or erosion. If the quality of rarity is excluded, any "old" item is less valuable than a "new" item of identical kind and quality. For accounting purposes, depreciation is usually considered to be a function of time.

Depreciation insurance–Fire insurance coverage written as an endorsement and designed to cover the difference between full replacement cost of property or properties and the ordinary "insurable" value of the property, which is replacement value less depreciation. Such coverage is also known as replacement insurance.

Deviation–The amount by which a rate differs from one published by a rating bureau.

Distribution clause–A provision of a blanket fire insurance agreement that restricts the amount of recovery for loss occurring to any individual building or property to the amount of insurance covering that specific property. The distribution clause is required by most companies when an average clause of less than 90 percent is used.

Endorsement–A written agreement added on or attached to an insurance policy and either clarifying the original basic insurance agreement or amending it by restricting or extending its provisions.

Excess carrier/catastrophic liability carrier–An insurer whose policy does not pay until a loss exceeds an agreed amount (excess insurance). Such amount of loss may be insured (primary insurance) or it may be self-insured (self-insured retention, SIR). Many carriers will only provide such excess insurance at a level that will protect a policyholder from amounts of loss that would have a catastrophic impact.

Excess insurance–A provision giving coverage after a policy in a basic amount has been exhausted.

Exclusion–A clause or provision in an insurance contract specifically stating that a defined act, situation, or property does not come within the scope of the risk being assumed by the insurance company.

Experience–The claims history of a risk.

Extended coverage–Insurance protection written as an endorsement to a fire insurance agreement extending the protection from loss by fire and lightning exclusively to loss from the additional perils of windstorm, hail, explosion (except steam boilers), riot, riot attending a strike, civil commotion, aircraft, vehicles, and smoke.

Faithful-performance bond–A surety bond that covers losses due to mistakes in judgment, acts of omission, and infidelity.

Fidelity bonds–A form of suretyship that protects an employer against loss caused by the dishonest acts of employees.

Floater–A type of policy covering portable property.

Group insurance–An insurance agreement made between an insurer and an association or organization covering all or part of the members or employees. Life, accident, health, and hospitalization insurance are often written on a group basis.

IBNR–An abbreviation or acronym for the term "incurred but not reported." The values of all happenings that have occurred but have not as yet been reported to the insurer. Such IBNR estimates are based on historical average as impacted by current trends.

Incurred loss–A happening on which a payment is anticipated but final settlement has not yet taken place. The value of such incurred loss includes the estimate of ultimate settlement, including any interim payments.

Individual fidelity bond–A bond that covers the dishonest acts of a specific employee, officer, or agent for a specified amount; sometimes known as a name bond.

Insurable value–The current replacement cost of a property less depreciation and less noninsurable or excluded items.

Insured–The party or organization whose risks are being transferred or assumed through the insurance contract or policy. When a school district takes out insurance, it is the insured party.

Insurer–The insurance company or companies; a business organization licensed by the state to write insurance (i.e., to accept by contractual agreement the transfer of risks for uncertain losses of other individuals or groups of individuals and to make accumulations to meet such losses).

ISO–An abbreviation or acronym for Insurance Service Office, which is a national insurance rating organization that establishes forms, rules, and rates for most property and liability lines of insurance.

Joint powers agreement–A formal agreement provided for by law (Government Code Section 6500) wherein separate entities may exercise jointly any power they have individually. One entity may share in assumption of losses by another. This device may be used to purchase insurance or provide for uninsured losses.

Larceny–A broad term that generally covers the criminal abstraction of property. It is often used synonymously with theft when the act is not classifiable more specifically; e.g., burglary, robbery, or embezzlement.

Liability–The legal obligation to assume responsibility for one's own acts or omissions, including the injury occasioned to another's person or property because of lack of ordinary care or skill in the management of one's property or person.

Liability insurance–Insurance designed to cover some or all aspects of the legal liability exposure of the insured. California school districts are legally liable for the negligence of their employees, officers, and agents, as well as for injury resulting from dangerous or defective conditions of school property. The liability must be covered by liability insurance.

Loss–The amount that an insurer must pay or anticipate paying as a result of a happening against which it has insured. (See also Paid loss and Incurred loss.)

Malpractice insurance–Insurance against the liability that may arise from the rendering or failure to render professional treatment or services for the body of any person. For a school district such insurance is used generally to cover the professional acts of the district's doctors or nurses.

Master policy–A policy in which all general conditions are set forth and under which certificates referring to the master policy and describing the particular transactions are sent to individual insureds.

Medical payments insurance–A form of accident insurance designed to cover to a specified limit the cost of medical expenses incurred by or for any person who sustains bodily injury caused by an accident, even though the insured is not legally liable.

Mutual company–An insurance company organized as an association of the insured without other owners or stockholders. Claims are to be paid from premiums and surplus. If claims and expenses exceed income, policyholders are subject to assessment except where nonassessable policies are issued.

Name-schedule fidelity bond–A fidelity bond that covers to a limited amount the dishonest acts of employees designated by name in the bond.

Negligence–Failure to act as a reasonably prudent person would be expected to act under similar circumstances. Since this definition is subject to very broad interpretations and since the school district is potentially liable for the negligence of its officers and employees, potential exposure of a school district to liability claims is very great.

Nonconcurrency–Variation in the terms of separate policies written to cover the same property or risk. This variation represents unacceptable insurance practice under any circumstances.

Obligee–The party in a suretyship contract in whose favor the bond is issued. When a school district takes out a fidelity bond to protect itself against loss caused by the dishonest acts of an employee or employees, the school district is the obligee.

Original cost–The actual cost of an item or facility at the time of original acquisition.

Package insurance–Multiple coverages combined for rating and coverage purposes.

Paid loss–The amount actually paid in the final settlement of a loss.

Partial self-insurance–Combining the concept of insurance (risk tranference) and self-insurance (risk assumption). The amount of liability/loss (arising from risk) to be self-insured is determined and the remaining liability transfered to an insurer by purchasing an insurance policy.

Percentage contributing–The amount that a coinsurer agrees to participate in any loss.

Per loss deductible–The amount of agreed loss that must be suffered by the policyholder on each and every loss.

Policy, insurance–The agreement or contract between the insurer and the insured.

Policy term–The period of time covered by an insurance agreement; for example, fire insurance is written on a one-year, a three-year, or a five-year basis.

Pooling–The sharing of liabilities on some fixed or percentage basis. Pools are often established when no single participant is able to assume the full extent of liability and needs others to help share the burden in total.

Position-schedule fidelity bond–A bond that covers losses resulting from the dishonest acts of any individual while he or she is filling one of the positions named in the bond.

Principal(s)–The party or parties to whom a contract is directed; in a suretyship contract, the party or parties whose acts are guaranteed; in the case of a school district fidelity bond, those employees against whose possible dishonest acts the district is protected from loss.

Pro-rata cancellation–Return of an entire unearned premium without penalty.

Products liability–Liability for damages resulting from products manufactured and sold, including items of food.

Public institutional property form (PIP)–A fire insurance form designed for use by schools, other public agencies, and churches.

Rate, premium–The unit charge made for insurance protection, usually quoted as the charge for each $100 of coverage.

Rate term–The period of time upon which a premium is based. Fire insurance is written upon a one-year, a three-year, or a five-year basis. The rate for a five-year policy is computed at 4.4 times the annual rate; the rate for a three-year policy is 2.7 times the annual rate.

Reciprocal exchange–An unincorporated association of companies or individuals set up to permit its members to take out reciprocal insurance.

Reciprocal insurance–A plan of insurance by which each policyholder is an insurer as well as an insured and is liable for the payment of claims for all other insureds except where a nonassessable policy is issued; also called interinsurance.

Reinsurance–The process whereby an insurer may share risk with another insurer by paying to a sharing insurer a portion of the premium, depending on the share of risk assumed. Reinsurance is an agreement between insurers and does not affect the rights of a policyholder.

Relative value schedule (RVS)–A schedule of units for various medical procedures and services to which dollar values are assigned.

Replacement cost–The current market cost of replacing an item or a facility, such as a building or a part of a building, with a new item or facility that is identical or essentially similar in kind.

Replacement insurance–See Depreciation insurance.

Reserve–Funds set aside to provide payment for anticipated losses. (See also Restricted reserve.)

Restricted reserve–A reserve authorized by code which may be used only to pay specific claims. It is maintained as separate from the working funds of the district and may not be drawn upon for any purpose other than loss reimbursement.

Retrospective rating–A method of determining the final rate/premium for a policy after policy expiration based on the losses developed during the policy period. Most plans of this type are based on a formula whereby the final premium is a combination of (insurer expenses) plus (losses developed) subject to certain minimum and maximum premium limitations.

Rider–An amendment to a policy added at the time of issue.

Risk–The chance of loss. Specifically, the possible loss or destruction of property or the possible incurring of a liability.

Risk management–The method of minimizing the adverse effects of risk at minimum cost through its identification, measurement, and control.

Robbery–The felonious abstraction of property by means of personal violence or threat of personal violence. An armed holdup is an example of robbery. However, even though a weapon is not used, robbery is still committed if violence or threat of violence is present.

Self-Insurance (permissively uninsured)–The "positive" act of identifying risks and setting aside reserves to meet the anticipated liability/losses arising from such risks.

Short-rate cancellation–A penalty charge against an unearned premium when a policy is cancelled by the insured.

Sound value–See Insurable value.

Standard form–A policy form generally in use, or in some instances, such as workers' compensation, a policy form prescribed by law.

Statement of values–A formal statement made to an insurer or rating bureau, setting forth the insurable value or properties that are to be insured.

Stipulated value–A value agreed to by both parties to a contract. When a stipulated value clause is a part of a fire insurance contract, the insured and the insurer agree to accept a specifically stated value as the amount of insurance that will meet average-clause requirements as long as the covered facilities are not modified or added to.

Stock company–An insurance company with ownership vested in stockholders.

Subrogation–The right of an insurer to recover from a third party.

Surety–A company or individual that guarantees to a second party the performance of a third party. The most common kind of suretyship is exercised through the fidelity bond, by which an employer is protected against loss caused by the dishonest or criminal acts of an employee, officer, or agent.

Surety bond–A contract by which a company or individual guarantees a second party against loss due to acts or omissions of a third party. Common examples of surety bonds are the fidelity bond and the faithful-performance bond.

Tax-sheltered annuity–An annuity purchased under Section 403(b) of the Internal Revenue Code to defer tax on a portion of income.

Theft–A broad term that includes criminal abstraction of property by stealth when no signs of violence or forced entry are apparent.

The tail of losses–The length of time between the date of occurrence and final settlement of the loss.

Tort–Any wrongful act not involving a breach of contract but resulting in personal damages for which civil action may be taken. In contrast to a crime, which is a wrongful act directed against society generally, a tort is a wrong directed against a person or persons. However, an act may at the same time be a crime and a tort; e.g., an injury to a person resulting from another's drunken driving.

Unearned premium–A premium applied to an unexpired period of coverage.

Vandalism–The willful or malicious physical injury to or destruction of property.

Waiver–The voluntary deletion of any part of coverage in the terms of a policy.

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